

POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R2001-1
POSTAL RATE AND FEE CHANGES)

Suite 300
U.S. Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 7
Wednesday, January 9, 2002

The above-entitled matter came on for hearing
pursuant to notice, at 9:34 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. RUTH Y. GOLDWAY, VICE-CHAIRMAN
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER

APPEARANCES:

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C O N T E N T S

WITNESSES APPEARING:
 ALTAF H. TAUFIQUE
 MICHAEL W. MILLER
 MAURA ROBINSON

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Altaf H. Taufique	1192	1323	--	--	--
Michael W. Miller	1326	1393	--	--	--
Maura Robinson	1404	1595 1621			

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Designation of corrected written cross-examination of USPS witness, Altaf H. Taufique, USPS-T-34	1197
Designation of corrected written cross-examination of USPS witness Michael W. Miller, USPS-T-22	1330
Designated of corrected written cross-examination of USPS witness, Maura Robinson, USPS-29	1408
ABA and NAPM Cross-Examination Exhibit Number 1 for Robinson, USPS T-29	1626

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Altaf H. Taufique on behalf of the USPS, USPS-T-34	1192	1193
Designation of corrected written cross-examination of USPS witness Altaf H. Taufique, USPS-T-34	1196	1196
Corrected direct testimony of Michael W. Miller, on behalf of the USPS, USPS-T-22	1326	1328

C O N T E N T SE X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Designation of corrected written cross-examination of USPS witness Michael W. Miller, USPS-T-22	1329	1329
Corrected direct testimony of Maura Robinson on behalf of the USPS, USPS-T-29	1404	1406
Designation of corrected written cross-examination of USPS witness Maura Robinson, USPS-T-29	1407	1407
ABA and NAPM Cross-Examination Exhibit Number 1 for Robinson, USPS T-29	1622	1625

P R O C E E D I N G S

(9:34 a.m.)

1
2
3 CHAIRMAN OMAS: Good morning. Today we resume
4 hearings to receive testimony of the Postal Service
5 witnesses in support of Docket No. R2001-1, Request for Rate
6 and Fee Changes.

7 Hearings will be held over the next three days to
8 allow participants to question Postal Service witnesses on
9 issues pertinent to the proposed stipulation and agreement
10 as revised on December 26.

11 Does anyone have any procedural matters to discuss
12 before we continue here today?

13 (No response.)

14 CHAIRMAN OMAS: Three witnesses are scheduled to
15 appear today. They are Witnesses Taufique, Miller and
16 Robinson.

17 Mr. Rubin, would you please call your first
18 witness?

19 MR. RUBIN: Yes. The Postal Service calls Altaf
20 Taufique as its next witness.

21 CHAIRMAN OMAS: Mr. Taufique, would you stand?

22 Whereupon,

23 ALTAF H. TAUFIQUE

24 having been duly sworn, was called as a witness
25 and was examined and testified as follows:

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1 CHAIRMAN OMAS: Please be seated.

2 (The document referred to was
3 marked for identification as
4 Exhibit No. USPS-T-34.)

5 DIRECT EXAMINATION

6 BY MR. RUBIN:

7 Q Mr. Taufique, have you reviewed two copies of a
8 document designated USPS-T-34 entitled Direct Testimony of
9 Altaf H. Taufique on behalf of the United States Postal
10 Service?

11 A I have.

12 CHAIRMAN OMAS: Your mike?

13 THE WITNESS: I have reviewed the two copies that
14 you gave to me.

15 BY MR. RUBIN:

16 Q Was this testimony prepared by you or under your
17 supervision?

18 A Yes.

19 Q If you were to testify orally here today, would
20 this be your testimony?

21 A Yes.

22 Q Are you also prepared to sponsor the Category II
23 library reference associated with your testimony?

24 A Yes.

25 Q Is that library reference identified at the end of

1 the table of contents in your testimony as Library Reference
2 J-107, your work papers?

3 A Yes.

4 MR. RUBIN: I have provided two copies of the
5 direct testimony of Altaf H. Taufique on behalf of the
6 United States Postal Service to the reporter, and I ask that
7 this testimony and the associated library reference be
8 entered into evidence in this docket.

9 CHAIRMAN OMAS: Is there any objection?

10 (No response.)

11 CHAIRMAN OMAS: Hearing none, I will direct
12 counsel to provide the reporter with two copies of the
13 corrected direct testimony of Altaf H. Taufique. That
14 testimony is received into evidence. However, as is our
15 practice, it will not be transcribed.

16 (The document referred to,
17 previously identified as
18 Exhibit No. USPS-T-34, was
19 received in evidence.)

20 CHAIRMAN OMAS: Mr. Taufique, have you had an
21 opportunity to examine the packet of designated written
22 cross-examination that was available to you in the hearing
23 room this morning?

24 THE WITNESS: Yes. I have reviewed it.

25 CHAIRMAN OMAS: If the questions contained in that

1 packet were posed to you orally today, would your answers be
2 the same as those previously provided in writing?

3 THE WITNESS: They would be the same.

4 CHAIRMAN OMAS: On January 7, 2002, American
5 Business Media and the McGraw-Hill Companies, Inc., filed an
6 objection to four of the designated discovery responses. I
7 would like to note for the record that I appreciate the fact
8 that a written objection was provided in advance of today's
9 hearing.

10 The objected to discovery responses were
11 designated by the Magazine Publishers of America. Mr.
12 Myers, would you like to respond to this objection?

13 MR. MYERS: Good morning, Mr. Chairman,
14 Commissioner Goldway, Commissioner Covington. It's a
15 pleasure to be here. In a moment I'm going to withdraw
16 MPA's designation of the four interrogatories in question,
17 but I want to make a couple of comments.

18 Doing this in the spirit of the fact that MPA,
19 McGraw-Hill and ABM have worked diligently to resolve some
20 very thorny differences in this case to try and facilitate
21 the settlement proceeding and the fact that we are
22 withdrawing these designations in no way should be read to
23 reflect on our feelings toward the arguments made in the
24 objection, but in order to facilitate the progress of this
25 case and with the knowledge that at some point if the

1 settlement does not come to fruition we'll get this material
2 in, I'm going to at this moment withdraw the objections to
3 ABM-MH/USPS-T-34-8, 10 and 15 and CRPA/NFIP/USPS-T-34-14-C.

4 Thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Myers.

6 MR. FELDMAN: Mr. Chairman, Stephen Feldman
7 representing the Coalition for Religious Press Associations
8 and the National Federation of Independent Publications.

9 I want to echo Mr. Myers' statement. Our
10 organizations likewise designated the interrogatory
11 questions. However, after reading Mr. Straus' objection we
12 endorse that objection, and in light of the resolution that
13 Mr. Myers has just announced I just want to say that we
14 endorse his remarks and are withdrawing our designations of
15 those interrogatories as well.

16 CHAIRMAN OMAS: Thank you, Mr. Feldman.

17 Mr. Taufique, are there any corrections you would
18 like to make to the remaining answers?

19 THE WITNESS: Yes. There is a single correction,
20 which is on ABM-MH/USPS-T-34-12. There is one word change
21 that I would like to point out on that one.

22 (Pause.)

23 THE WITNESS: I'm sorry. On the first page of
24 that particular response, the second to the last line, the
25 spelling of the word T-H-A-N should be changed to T-H-E-N.

1 CHAIRMAN OMAS: Thank you.

2 THE WITNESS: The copies that have been provided,
3 these copies have the changed response.

4 CHAIRMAN OMAS: All right. Thank you, Mr.
5 Taufique.

6 Counsel, would you please provide two copies of
7 the corrected designated written cross-examination of
8 Witness Taufique to the reporter? That material is received
9 into evidence and is to be transcribed into the record.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. USPS-T-34 and was
13 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE
(USPS-T-34)

Party

American Business Media &
McGraw-Hill

Interrogatories

ABM-MH/USPS-T34-1-5, 12, 14, 17, 19-25, 29,
32-38, 40-42, 44-56
MPA/USPS-T34-22

Coalition of Religious Press
Associations and National Federation
of Independent Publications

ABM-MH/USPS-T34-1-5, 17, 19-20, 22, 24, 32-35,
41, 44-46

CRPA-NFIP/USPS-T34-1-10, 12-15
MPA/USPS-T34-1, 5-7, 8b, d-f, 9, 10a-d, 11-13,
18a-b, 19, 20a-c, 21-22, 23e-f, 30b-c, 31b, 34
POIR No. 3, Question Nos. 1-3

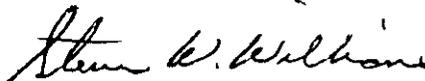
Magazine Publishers of America

ABM-MH/USPS-T34-1-8, 10, 12, 14-15, 18, 24, 28,
39, 41, 47-48, 56
CRPA-NFIP/USPS-T34-1, 3-5, 7, 10, 14a-c
MPA/USPS-T34-1, 6-7, 8b, d-f, 9, 10a-d, 11-13,
18a-b, 19, 20a-c, 21, 23e-f, 30b-c, 31b, 34

Newspaper Association of America

POIR No. 3, Question 3

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
 UNITED STATES POSTAL SERVICE
 WITNESS ALTAF H. TAUFIQUE (T-34)
 DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

ABM-MH/USPS-T34-1
 ABM-MH/USPS-T34-2
 ABM-MH/USPS-T34-3
 ABM-MH/USPS-T34-4
 ABM-MH/USPS-T34-5
 ABM-MH/USPS-T34-6
 ABM-MH/USPS-T34-7
 ABM-MH/USPS-T34-8
 ABM-MH/USPS-T34-10
 ABM-MH/USPS-T34-12
 ABM-MH/USPS-T34-14
 ABM-MH/USPS-T34-15
 ABM-MH/USPS-T34-17
 ABM-MH/USPS-T34-18
 ABM-MH/USPS-T34-19
 ABM-MH/USPS-T34-20
 ABM-MH/USPS-T34-21
 ABM-MH/USPS-T34-22
 ABM-MH/USPS-T34-23
 ABM-MH/USPS-T34-24
 ABM-MH/USPS-T34-25
 ABM-MH/USPS-T34-28
 ABM-MH/USPS-T34-29
 ABM-MH/USPS-T34-32
 ABM-MH/USPS-T34-33
 ABM-MH/USPS-T34-34
 ABM-MH/USPS-T34-35
 ABM-MH/USPS-T34-36
 ABM-MH/USPS-T34-37
 ABM-MH/USPS-T34-38
 ABM-MH/USPS-T34-39
 ABM-MH/USPS-T34-40
 ABM-MH/USPS-T34-41

Designating Parties

ABM-MH, CRPA-NFIP, MPA
 MPA
 MPA
 MPA
 MPA
 ABM-MH, MPA
 ABM-MH, MPA
 MPA
 ABM-MH, CRPA-NFIP
 MPA
 ABM-MH, CRPA-NFIP
 ABM-MH, CRPA-NFIP
 ABM-MH
 ABM-MH, CRPA-NFIP
 ABM-MH
 ABM-MH, CRPA-NFIP, MPA
 ABM-MH
 MPA
 ABM-MH
 ABM-MH, CRPA-NFIP
 ABM-MH, CRPA-NFIP
 ABM-MH, CRPA-NFIP
 ABM-MH, CRPA-NFIP
 ABM-MH
 ABM-MH
 ABM-MH
 MPA
 ABM-MH
 ABM-MH, CRPA-NFIP, MPA

ABM-MH/USPS-T34-42	ABM-MH
ABM-MH/USPS-T34-44	ABM-MH, CRPA-NFIP
ABM-MH/USPS-T34-45	ABM-MH, CRPA-NFIP
ABM-MH/USPS-T34-46	ABM-MH, CRPA-NFIP
ABM-MH/USPS-T34-47	ABM-MH, MPA
ABM-MH/USPS-T34-48	ABM-MH, MPA
ABM-MH/USPS-T34-49	ABM-MH
ABM-MH/USPS-T34-50	ABM-MH
ABM-MH/USPS-T34-51	ABM-MH
ABM-MH/USPS-T34-52	ABM-MH
ABM-MH/USPS-T34-53	ABM-MH
ABM-MH/USPS-T34-54	ABM-MH
ABM-MH/USPS-T34-55	ABM-MH
ABM-MH/USPS-T34-56	ABM-MH, MPA
CRPA-NFIP/USPS-T34-1	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-2	CRPA-NFIP
CRPA-NFIP/USPS-T34-3	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-4	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-5	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-6	CRPA-NFIP
CRPA-NFIP/USPS-T34-7	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-8	CRPA-NFIP
CRPA-NFIP/USPS-T34-9	CRPA-NFIP
CRPA-NFIP/USPS-T34-10	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-12	CRPA-NFIP
CRPA-NFIP/USPS-T34-13	CRPA-NFIP
CRPA-NFIP/USPS-T34-14	CRPA-NFIP, MPA
CRPA-NFIP/USPS-T34-15	CRPA-NFIP
MPA/USPS-T34-1	CRPA-NFIP, MPA
MPA/USPS-T34-5	CRPA-NFIP
MPA/USPS-T34-6	CRPA-NFIP, MPA
MPA/USPS-T34-7	CRPA-NFIP, MPA
MPA/USPS-T34-8b	CRPA-NFIP, MPA
MPA/USPS-T34-8d	CRPA-NFIP, MPA
MPA/USPS-T34-8e	CRPA-NFIP, MPA
MPA/USPS-T34-8f	CRPA-NFIP, MPA
MPA/USPS-T34-9	CRPA-NFIP, MPA
MPA/USPS-T34-10a	CRPA-NFIP, MPA
MPA/USPS-T34-10b	CRPA-NFIP, MPA

MPA/USPS-T34-10c	CRPA-NFIP, MPA
MPA/USPS-T34-10d	CRPA-NFIP, MPA
MPA/USPS-T34-11	CRPA-NFIP, MPA
MPA/USPS-T34-12	CRPA-NFIP, MPA
MPA/USPS-T34-13	CRPA-NFIP, MPA
MPA/USPS-T34-18a	CRPA-NFIP, MPA
MPA/USPS-T34-18b	CRPA-NFIP, MPA
MPA/USPS-T34-19	CRPA-NFIP, MPA
MPA/USPS-T34-20a	CRPA-NFIP, MPA
MPA/USPS-T34-20b	CRPA-NFIP, MPA
MPA/USPS-T34-20c	CRPA-NFIP, MPA
MPA/USPS-T34-21	CRPA-NFIP, MPA
MPA/USPS-T34-22	ABM-MH, CRPA-NFIP
MPA/USPS-T34-23e	CRPA-NFIP, MPA
MPA/USPS-T34-23f	CRPA-NFIP, MPA
MPA/USPS-T34-30b	CRPA-NFIP, MPA
MPA/USPS-T34-30c	CRPA-NFIP, MPA
MPA/USPS-T34-31b	CRPA-NFIP, MPA
MPA/USPS-T34-34	CRPA-NFIP, MPA
POIR No. 3, Question 1	CRPA-NFIP
POIR No. 3, Question 2	CRPA-NFIP
POIR No. 3, Question 3	CRPA-NFIP, NAA

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES

ABM-MH/USPS-T34-1. When was the last time that the editorial pound rate for *Periodicals* differed depending upon where the publication is entered into the mail and where it is ultimately to be delivered by the Postal Service?

RESPONSE:

Probably never. The research presented by my illustrious predecessor Dr. Robert W. Mitchell's testimony on behalf of the Postal Service in Docket No. R90-1 is enlightening. He starts his summary from prior to 1917 when there was no distinction between editorial and advertising pounds. A flat rate was charged for the total weight.

Then things changed in 1917. And the reason for change as provided in the 1917 Annual Report of Postmaster General Albert S. Burleson was that the cost of transporting and handling second-class mail was "several times the revenue received therefrom." The House of Representatives passed a bill that would have applied zoned rates to the total weight of all second-class publications, with no distinction between *editorial* and advertising content. The Senate initially approved the zoned rate concept for both *editorial* and advertising content, then later amended the bill to leave the rates as they were. A compromise solution of zoned advertising and a flat editorial rate was adopted by a conference committee.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES

ABM-MH/USPS-T34-2. In the Commission's Opinion in Docket No. R90-1 that is cited at lines 15-17 of page 5 of USPS-T-34, the Commission stated at page V-122: "To diminish the encouragement of widespread dissemination of editorial matter throughout this nation by zoning the editorial rates strikes at the balance of the treatment between editorial and advertising matter in second class rate designs. We find nothing on this record to persuade us that we should abandon that balance in regular rate second class." Please list and explain all reasons why abandonment of that balance is now appropriate.

RESPONSE:

The proposal by the Postal Service in this docket does not zone the editorial rates. It merely provides additional incentives for mailers to enter the mail closer to its destination by passing along a portion of the cost savings to editorial pound rates if mail is entered at specified destinating locations. The Postal Service is not abandoning the balance discussed by the Commission in Docket No. R90-1 (cited in question). Our goal is to maintain this balance and simultaneously provide signals which in our estimation would lead to better preparation, service, cost, and cost coverage for this subclass.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES

ABM-MH/USPS-T34-3. Please explain fully why, in the view of Mr. Taufique, the Postal Service should take account of "social policy objectives" in setting rates as suggested at page 5 of USPS-T-34, lines 15-17.

RESPONSE:

The Postal Service is required to consider the educational, cultural, scientific, and informational value of the mail matter delivered. Periodicals are a class of mail with recognized ECSI value represented by the nonadvertising (or editorial) matter. In fact DMCS 412.2 states that a General Publication must be originated for the purpose of disseminating information of a public character, or devoted to literature, the sciences, art, or some special industry.

The presumption is that editorial matter has educational, cultural, scientific, or informational value and that the broad dissemination of such matter is in the national interest. Recognizing this value of Periodicals mail in rate design is the "social policy objective" from my perspective. Witness Moeller (USPS-T-28) considers this value in his rate policy testimony (USPS-T-28 at 30).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES

ABM-MH/USPS-T34-4. Please explain fully what is meant by the "concerns" for "dissemination of information" that allegedly are addressed by Mr. Taufique's proposal as stated at lines 18-19 of page 5 of USPS-T-34.

RESPONSE:

One perspective about the concerns for dissemination of information relates only to maintaining a uniform editorial pound rate for all zones. The Postal Service agrees with this notion, but at the same time is concerned about the long-term health of the subclass that provides the vehicle for this dissemination. Our proposal maintains the unzoned uniform editorial pound rate but provides appropriate dropship price signals that would lead to lower combined cost for the class.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES

ABM-MH/USPS-T34-5. Please explain fully how the “concerns” for “dissemination of information” that are referenced at lines 18-19 of page 5 of USPS-T-34 are specifically addressed in the USPS’s proposal for separate editorial drop ship pound rates in this case.

RESPONSE:

“Concerns” for “dissemination of information” are specifically addressed by maintaining the unzoned editorial pound rate but at the same time providing the dropship pricing signals which in our view would lead to lower combined cost for the class.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES
ABM-MH/USPS-T34-6, Page 1 of 4

ABM-MH/USPS-T34-6. At lines 1-2 of page 6 of USPS-T-34, Mr. Taufique cites to the history of cost increases in Periodicals and states that: "The Postal Service, and the mailers have provided various explanations for these increases." Please state and explain fully each of the various explanations for recent cost increases in Periodicals that has been provided by the Postal Service in the past three years. For each, state how the proposal to create drop ship discounts for editorial pounds will help to reduce those costs.

RESPONSE:

The following table summarizes the explanations for cost increases provided by the Postal Service during Docket No. R2000-1. For a more detailed explanation of factors contributing to Periodicals costs and their interrelationships, see the referenced sections of witness O'Tormey's (USPS-ST-42) and witness Unger's (USPS-ST-43) testimonies in response to Commission Order No. 1289.

<u>Cost Increase Explanations</u>	<u>Reference</u>
1. Mail Piece and Preparation Characteristics:	USPS-ST-42, page 11-12
a) Flat Mail Characteristics: The allowable variation in the size, weight, shape, and thickness of flat mail makes it inherently more difficult to process. Mail at the extremes is often processed manually to ensure service and to allow automation to be used more productively. Newspapers are among the most difficult flats to handle due to their size, shape, thickness, and tendency to bend when handled.	USPS-ST-43, page 3
b) Address and Barcode Orientation: Mail from different sources tends to have addresses in various locations and in multiple orientations requiring operators to rotate mail pieces when keying or during manual operations.	USPS-ST-42, page 12
c) OCR Address Readability: Information on the same side as the address may cause OCR address interpretation problems. Inability to accurately read the address with OCR equipment may result in use of keying or manual sortation.	USPS-ST-42, page 12-13
d) Barcoded & Non-barcoded Flat Mailstreams: Barcoded Periodicals mail volume was insufficient to warrant separation and processing until the mid-	USPS-ST-42, page 15-16

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA AND THE MCGRAW-HILL COMPANIES
ABM-MH/USPS-T34-6, Page 2 of 4

<u>Cost Increase Explanations</u>	Reference
<p>1990s. By 1998, many larger mailings qualified for a 5-digit presort level discount, and at many locations, the 5-digit volume did not justify a separate sort run. The effect was that much of the barcoded mail continued to be processed in FSM keying operations or manually.</p> <p>e) Polywrapped Flats: Even with the standards and testing, polywrapped flats run with varying levels of success on the FSM 881. When difficulties occur, the mail must be processed on the FSM 1000 or manually.</p> <p>f) Line-of-Travel: If mail is prepared in line-of-travel sequence, the carrier can route the mail faster.</p> <p>g) Bundle (Package) Characteristics: Bundle breakage requires either re-strapping, or if the internal integrity is lost entirely, the mail must be worked as individual pieces, adding cost to the Periodicals processing operation.</p> <p>h) Container Characteristics: Pallets are generally easier to handle, dump, and process than containers with the same mail or sacks. The brick-stacking tends to help maintain the mail's shape and bundle integrity. Offsetting these benefits is the additional transportation costs since pallets take up more space. When compared to pallets, sacks tend to be more difficult to handle, contain relatively small amounts of mail, and increase the probability of bundle breakage and damage to the mail pieces.</p>	<p>USPS-ST-42, page 16-17; USPS-ST-43, page 3</p> <p>USPS-ST-43, page 4 USPS-ST-43, page 4</p> <p>USPS-ST-43, page 4-5</p>
<p>2. Service Characteristics, Considerations and Service Improvements: Service standards and customer expectations influence mail processing decisions and costs.</p> <ul style="list-style-type: none"> • Time sensitive nature of periodicals mail • Flexibility of acceptance to accommodate mailers and printer needs • Relationship of arrivals and urgency of dispatch • "Hot Pubs" handling in plants and delivery units • Supplemental transportation to meet service needs • Supplemental periodicals transportation to meet service needs <p>Each service factor results in the potential for additional processing or transportation cost.</p>	<p>USPS-ST-43, page 5-7, 9-10</p>

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<p>3. Declining FSM Productivity and Related Operations</p> <p>a) As the FSM 881 aged and received new modifications, the maintenance requirements and the use of the maintenance window increased.</p> <p>b) As barcoded volume grew, more barcoded flat sort plans were being run. This resulted in the keying operations experiencing shorter runs with additional manhours for sweeping, relabeling, changing sort plans, etc.</p>	<p>USPS-ST-42, page 14</p> <p>USPS-ST-43, page 14-15</p>
<p>4. Reorganization Impact</p> <p>a) Supervisory Retirements: As a result of an internal reorganization, a number of experienced supervisors chose to retire.</p> <p>b) Allied Labor Workhour Reduction: Shortly after reorganization, management initiated an effort to better manage indirect mail processing operations. This resulted in a significant number of workhours related to prepping and dispatching the mail to be associated directly with FSM operations.</p>	<p>USPS-ST-42, page 17</p> <p>USPS-ST-42, page 17</p>
<p>5. Strike After-effects and Fall Mailing Season Preparation: Due to mailer criticism of relatively poor performance in the Fall of 1997, the Fall 1998 plan was based on expectations of greater volumes that did not materialize.</p>	<p>USPS-ST-42, page 17-18; USPS-ST-43, page 11-12</p>

The Postal Service believes that providing an incentive for the mailers to enter mail closer to its destination would go a long way in addressing many of the problems discussed above. Please see my response to ABM-MH/USPS-T34-8 for the reasons why we believe that these incentives would result in more dropshipment. I am not an operations expert by any means but a number of issues in item # 1 above could be addressed by entering Periodicals mail closer to its destination. Item # 2 above deals with service issues. Entry closer to destination would address service problems without causing any upward pressures on cost.

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If the proposed incentives lead to more palletization of mail as discussed in my response to ABM-MH/USPS-T34-10, then we hope that items 1g and 1h could be addressed. My understanding is that bundle breakage is considerably less when the mail is prepared on pallets rather than sacks.

Generally, if we achieve finer levels of presortation (see my response to ABM-MH/USPS-T34-10) as a result of our proposal, mail processing cost (35 percent of the volume variable cost) could be controlled better.

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ABM-MH/USPS-T34-7. At lines 2-5 of page 6 of USPS-T-34, Mr. Taufique cites to the Commission's Opinion in Docket No. R2000-1, specifically at pages V-407-412. At page V-412, the Commission stated that: "Further they [Postal Service witnesses O'Tormey and Unger] acknowledge that increases in mailer worksharing - such as presorting, barcoding and dropshipping - plus widespread use of pallets - should have had a downward influence on costs." (Emphasis added). Does Mr. Taufique agree that, at least up through the period addressed in Docket No. R-2000-1, these particular worksharing activities did not achieve the expected amount of downward influence on the "sharply increasing mail processing costs" in Periodicals that were also noted by the Commission at page V-407? Please explain fully any answer other than yes.

RESPONSE:

Although I do not have specific expectations for the "amount of downward influence" on cost that worksharing in areas such as presorting, barcoding, dropshipping, and palletization has had through the base year for Docket No. R2000-1, I believe these worksharing initiatives have had, and should continue to have, a positive influence on Periodicals cost containment. Absent worksharing, cost increases might have been larger. Other issues such as pieces per bundle and pieces per container also need to be evaluated before a judgment can be made regarding the impact of worksharing.

The initiatives that were undertaken by the Postal Service and the mailers in Docket No. R2000-1 (discussed on pages 415 through 419, Opinion and Recommended Decision, Vol. 1, Docket No. R2000-1) reflect our joint hope that we are willing to work together to overcome these barriers and bring Periodicals cost under control. The proposal in this Docket is a continuation of the same spirit, and is one additional step to improve the efficiency in preparation of mail

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while maintaining the distinctive ability of this subclass to disseminate
information, thereby binding the nation together.

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ABM-MH/USPS-T34-12. Assume that there are Periodicals that cannot be drop shipped for economic or other reasons and do not have the density to use pallets. Assume also that they cannot as a practical matter be co-palletized. Will the proposal for a pallet discount and an editorial pound drop ship discount help mitigate postage rate increases for such periodicals? Will it exacerbate them?

RESPONSE:

Let us analyze your question by looking at an example. For simplicity's sake assume that currently a publication pays \$1.00 on average for each piece mailed. Also assume that the profile of this publication exactly matches the billing determinants used in my workpapers. The average rate increase would apply to most components of postage paid. 60 percent of the postage paid by this publication is derived from piece rates. Regardless of the proposal on the dropshipment of editorial pounds, the increase on the piece portion of the postage would remain the same 10.4 percent. Therefore, postage on the piece portion would increase from 60 to 66 cents. The pound portion would account for 40 percent or 40 cents of the current postage. Advertising pounds account for 43.5 percent or 17.4 cents of the pound postage. Applying the average 10.4 percent increase, this will increase from 17.4 cents to 19 cents regardless of the treatment of the editorial pound rate dropship incentive. The editorial pound portion of the postage is 22.6 cents and would increase to 26 cents based on the 13.4 percent proposed increase. But if we applied the average increase of 10.4 percent to this component then this component would increase from 22.6 cents to 25 cents.

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ABM-MH/USPS-T34-12 (CONTINUED)

RESPONSE:

For this particular piece the exacerbation that you have implied would mean a postage increase from \$1 to \$1.11 instead of \$1.10. Even if the Periodicals contains 100 percent editorial content, and is neither dropshipped nor palletized, the combined postage will increase to \$1.12 versus the \$1.10 average.

Therefore, I believe the proposed rate structure presents a reasonable balance offering editorial pound rate discounts and per-piece palletization discounts to encourage worksharing, while mitigating the effect on the base editorial pound rate.

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ABM-MH/USPS-T34-14. Did the Postal Service in formulating its rate filing estimate and examine the effect of the proposed rates on a range of different types of Periodicals or Periodicals with differing billing determinants? If not, why not. If so, what types of Periodicals experienced the highest percentage and absolute increases, and how large were those increases?

RESPONSE:

Yes. The analysis provided on the attached sheet is an example. A weakness of such an analysis in this particular docket is estimating the volumes for rate categories not currently in existence. Also difficult to estimate are the changes in billing determinants that would result due to the proposal. For the most part this analysis reflects the impact on mailers if they did nothing. To the extent a mailer increases worksharing, its rate increase would be reduced.

Proposed Rate Effects on Various Publications						
Current	Proposed	Percent	FY2000	Weight	Weight	Editorial
Rev./Piece	Rev./Piece	Change	Volume*	per Piece	per Copy	Content
\$ 0.238	\$ 0.261	9.54%	2	0.408	0.398	41.0%
\$ 0.286	\$ 0.322	12.29%	1	0.315	0.289	50.3%
\$ 0.535	\$ 0.592	10.76%	1	1.051	0.997	29.1%
\$ 0.323	\$ 0.357	10.71%	1	0.618	0.618	41.4%
\$ 0.323	\$ 0.357	10.46%	1	0.495	0.463	45.0%
\$ 0.264	\$ 0.289	9.47%	3	0.595	0.595	55.2%
\$ 0.366	\$ 0.406	10.97%	3	0.815	0.814	47.5%
\$ 0.460	\$ 0.513	11.61%	1	1.052	0.953	39.2%
\$ 0.250	\$ 0.279	11.79%	2	0.430	0.429	78.3%
\$ 0.418	\$ 0.467	11.83%	1	0.711	0.514	34.1%
\$ 0.284	\$ 0.313	10.23%	3	0.608	0.608	61.2%
\$ 0.269	\$ 0.292	8.26%	2	0.519	0.519	54.2%
\$ 0.365	\$ 0.409	12.24%	1	0.599	0.569	44.6%
\$ 0.230	\$ 0.258	11.96%	3	0.379	0.315	68.2%
\$ 0.405	\$ 0.455	12.48%	1	0.619	0.540	33.7%
\$ 0.204	\$ 0.223	9.18%	3	0.415	0.394	60.2%
\$ 0.592	\$ 0.668	12.87%	1	1.000	0.995	28.8%
\$ 0.293	\$ 0.331	12.85%	1	0.297	0.287	51.9%
\$ 0.277	\$ 0.307	11.04%	2	0.421	0.399	40.2%
\$ 0.241	\$ 0.271	12.31%	2	0.409	0.409	86.0%
\$ 0.433	\$ 0.467	7.87%	2	1.250	1.247	41.8%
\$ 0.337	\$ 0.378	12.26%	1	0.375	0.372	36.7%
\$ 0.294	\$ 0.331	12.43%	1	0.307	0.262	40.6%
\$ 0.294	\$ 0.331	12.64%	1	0.374	0.372	60.6%
\$ 0.334	\$ 0.378	13.13%	1	0.487	0.478	47.5%
\$ 0.324	\$ 0.364	12.24%	1	0.354	0.260	37.0%
\$ 0.245	\$ 0.275	12.31%	2	0.409	0.408	84.9%
\$ 0.362	\$ 0.403	11.23%	2	0.562	0.558	39.3%
\$ 0.321	\$ 0.345	7.58%	2	0.955	0.953	47.9%
\$ 0.380	\$ 0.425	11.76%	1	0.627	0.599	43.1%
\$ 0.189	\$ 0.205	8.27%	4	0.410	0.399	52.8%
\$ 0.303	\$ 0.325	7.44%	3	0.843	0.840	40.2%
\$ 0.274	\$ 0.296	7.91%	3	0.708	0.683	47.0%
\$ 0.206	\$ 0.225	9.30%	3	0.409	0.408	58.3%
\$ 0.184	\$ 0.200	8.33%	4	0.407	0.401	56.9%
\$ 0.360	\$ 0.392	8.87%	3	1.015	1.014	44.0%
\$ 0.215	\$ 0.233	8.45%	3	0.475	0.473	48.5%
\$ 0.180	\$ 0.195	8.50%	4	0.353	0.338	52.2%
\$ 0.214	\$ 0.233	8.73%	3	0.463	0.460	49.5%
\$ 0.222	\$ 0.240	8.18%	4	0.529	0.525	49.6%
\$ 0.160	\$ 0.179	11.81%	3	0.246	0.244	78.1%
\$ 0.263	\$ 0.282	7.32%	3	0.691	0.687	59.2%
\$ 0.305	\$ 0.328	7.61%	3	0.903	0.898	42.4%
\$ 0.271	\$ 0.300	10.34%	3	0.728	0.727	59.4%
\$ 0.237	\$ 0.256	7.87%	3	0.580	0.577	39.0%

*Volume Categories

- 1 FY2000 Volume less than 1 million copies
- 2 FY2000 Volume between 1-10 million copies
- 3 FY2000 Volume between 10-100 million copies
- 4 FY2000 Volume greater than 100 million copies

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ABM-MH/USPS-T34-17. At lines 14-17 of page 6 of USPS-T34, Mr. Taufique states, "Larger destination entry discounts would provide further incentive for smaller and medium mailers to combine their mailings or versions to achieve the volumes necessary to justify the transportation for deeper downstream entry." With respect to this statement, please explain specifically how, in Mr. Taufique's opinion, the mailings by individual small and medium mailers would have to be combined and prepared in order to justify the transportation for deeper downstream entry. Provide examples if possible.

RESPONSE:

Postal Service requirements on combining the mailings can be found in DMM

E230.4.0.

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ABM-MH/USPS-T34-18. At lines 17-18 of page 6 of USPS-T34, Mr. Taufique states: "Even mailers who may not be able to dropship their mail would nonetheless benefit from the cost savings for all Periodicals." With respect to this statement, please:

- (a) provide a full explanation for the basis for this statement; and
- (b) confirm that Periodicals mailers who may not be able to dropship would face an immediate increase of 13.41% (\$0.179 per pound to \$0.203 per pound) in their editorial pound rates which is greater than the editorial pound rate increase if a flat rate were retained.

RESPONSE:

- (a) This statement is based on a simple premise that the passthroughs used for the editorial dropship pound rates and for palletized pieces are less than 100 percent. Any additional worksharing in either of the two areas would automatically plow back a portion of the savings to the subclass, thereby reducing overall costs. This reduction would benefit even the mailers who may not be able to dropship their mail.
 - (b) Please see my response to your question ABM-MH/USPS-T34-12.
-

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ABM-MH/USPS-T34-19. At page 7 of Mr. Taufique's testimony, he states that advertising pounds make up 44% of the total Periodicals weight but that he is allocating 50% of the transportation costs to advertising pounds. In response to POIR No. 5, question 3, Mr. Taufique states: "Distributing approximately 44 percent of the transportation cost to the calculation of advertising pound rates is more appropriate than the 50% allocation in the Postal Service's proposal."

- (a) Does this statement represent a concession that the filing has been done incorrectly and should be modified to reflect a 50% allocation? If not, what does it represent?
- (b) Please provide the rates that would result from substituting a 44% allocation for the 50% allocation.

RESPONSE:

(a) The allocation of transportation cost to calculation of advertising cost could have been done using the allocation of revenues to advertising pounds – approximately 53 percent. Or it could be based on actual advertising pounds – 44 percent. I chose to allocate 50 percent because that mitigated the impact on higher zones compared to a 53 percent allocation.

While that allocation remains the Postal Service proposal, my POIR No. 5 response signals participants and the Commission that the Postal Service would not oppose a 44 percent allocation,

(b) See the attached sheet for rates calculated with the 44 percent allocation of transportation cost to the calculation of advertising pounds.

OUTSIDE COUNTY					
RATE COMPARISONS USING 43.5 PERCENT ADVERTISING PROPORTION					
Regular Rate	Current Rate	44% Rate	Percent Change 44%	Proposed Rate	% Change Proposed
Advertising Pounds					
Destinating Delivery Unit	\$ 0.153	\$ 0.172	12.42%	\$ 0.160	4.58%
Destinating SCF	\$ 0.185	\$ 0.213	9.23%	\$ 0.204	4.62%
Destinating ADC		\$ 0.232	N/A	\$ 0.225	
Zones 1&2	\$ 0.238	\$ 0.255	7.14%	\$ 0.250	5.04%
Zone 3	\$ 0.253	\$ 0.271	7.11%	\$ 0.268	5.93%
Zone 4	\$ 0.292	\$ 0.313	7.19%	\$ 0.317	8.56%
Zone 5	\$ 0.351	\$ 0.377	7.41%	\$ 0.390	11.11%
Zone 6	\$ 0.413	\$ 0.444	7.51%	\$ 0.487	13.08%
Zone 7	\$ 0.488	\$ 0.525	7.58%	\$ 0.560	14.75%
Zone 8	\$ 0.552	\$ 0.594	7.61%	\$ 0.640	15.94%
Editorial Pounds					
Destinating Delivery Unit	\$ 0.179	\$ 0.161	-10.06%	\$ 0.158	-11.73%
Destinating SCF	\$ 0.179	\$ 0.181	1.12%	\$ 0.180	0.56%
Destinating ADC	\$ 0.179	\$ 0.191	6.70%	\$ 0.191	6.70%
Editorial Pound Rate (All other Zones)	\$ 0.179	\$ 0.202	12.85%	\$ 0.203	13.41%
Science of Agriculture					
Advertising Pounds					
Destinating Delivery Unit	\$ 0.115	\$ 0.129	12.17%	\$ 0.120	4.35%
Destinating SCF	\$ 0.146	\$ 0.160	9.59%	\$ 0.153	4.79%
Destinating ADC	\$ 0.179	\$ 0.174	-2.79%	\$ 0.168	-6.15%
Zones 1 & 2	\$ 0.179	\$ 0.191	6.70%	\$ 0.187	4.47%
Nonadvertising					
Destinating Delivery Unit	\$ 0.179	\$ 0.122	-31.84%	\$ 0.120	-32.98%
Destinating SCF	\$ 0.179	\$ 0.137	-23.46%	\$ 0.136	-24.02%
Destinating ADC	\$ 0.179	\$ 0.144	-19.55%	\$ 0.143	-20.11%
Zones 1 & 2	\$ 0.179	\$ 0.152	-15.08%	\$ 0.152	-15.08%
Presort Rate Pieces					
BASIC NON-AUTOMATION	\$ 0.333	\$ 0.369	10.81%		
BASIC AUTOMATION LETTER	\$ 0.266	\$ 0.277	4.14%		
BASIC AUTOMATION FLAT	\$ 0.291	\$ 0.321	10.31%		
3-DIGIT NON-AUTOMATION	\$ 0.283	\$ 0.320	13.07%		
3-DIGIT AUTOMATION LETTER	\$ 0.231	\$ 0.245	6.06%		
3-DIGIT AUTOMATION FLAT	\$ 0.248	\$ 0.279	12.50%		
5-DIGIT NON-AUTOMATION	\$ 0.219	\$ 0.252	15.07%		
5-DIGIT AUTOMATION LETTER	\$ 0.178	\$ 0.191	7.30%		
5-DIGIT AUTOMATION FLAT	\$ 0.194	\$ 0.222	14.43%		
CARRIER ROUTE BASIC	\$ 0.139	\$ 0.159	14.39%		
CARRIER ROUTE HIGH DENSITY	\$ 0.113	\$ 0.127	12.39%		
CARRIER ROUTE SATURATION	\$ 0.095	\$ 0.108	13.68%		
PERCENTAGE EDITORIAL DISCOUNT	\$ (0.067)	\$ (0.074)	10.45%		
WKSHARING DISCNTDELIVERY OFFICE ENTRY	\$ (0.017)	\$ (0.018)	5.88%		
WKSHARING DISCNT SCF ENTRY	\$ (0.008)	\$ (0.008)	0.00%		
WKSHARING DISCNT ADC ENTRY		\$ (0.002)			
WKSHARING DISCNT PALLETIZED PIECES		\$ (0.005)			

* Nonprofit and Classroom mailers pay the same rates and receive a 5% discount on postage.

Discount is not applicable to advertising pound postage

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ABM-MH/USPS-T34-20. At lines 11-13 of page 7 of USPS-T34, Mr. Taufique states that: "Second, the allocation of transportation cost to advertising pounds is designed to mitigate the impact of the larger dropship discounts on advertising pounds entered in higher zones." With respect to this statement, please state the advantages and disadvantages of the 50% allocation of transportation costs to advertising pounds as compared with alternative allocations based on the advertising revenue percentage and on the advertising weight percentage.

RESPONSE:

See my responses to ABM-MH/USPS-T34-19 and Presiding Officer's Information Request No. 5, question 3.

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ABM-MH/USPS-T34-21. At lines 21-23, of page 7 of USPS-T34, Mr. Taufique states: "Finally, the impact on the flat editorial pound rate (editorial pound rate applicable to zones 1&2 through zone 8) has been mitigated by using a 50 percent passthrough for the rate differentials derived for advertising pound rates." With respect to this statement, please state whether the USPS considered other passthrough percentages for the editorial pound rate differential and if so, state what those passthrough percentages were and explain why the USPS rejected them in arriving at its proposal in this case.

RESPONSE:

My recollection is that one option that was considered was 100 percent passthrough of the rate differentials derived for advertising pound rates in order to calculate the dropship rates for editorial pounds. That option was almost immediately rejected due to its impact on the unzoned editorial pound rates. A 50 percent passthrough provided the balance that the Postal Service was seeking between a reasonable uniform editorial pound rate, and larger incentives for dropshipping.

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ABM-MH/USPS-T34-22. At lines 23-25 of page 7 of USPS-T34, Mr. Taufique states: "In other words, only half of the transportation and non-transportation cost avoidances derived for advertising pounds are applied to the calculation of editorial pound dropship rates." With respect to this statement, please provide workpapers with supporting references that demonstrate that 50 percent of the transportation and non-transportation cost avoidances derived for advertising pounds are applied to the calculation of editorial pound dropship rates.

RESPONSE:

Worksheet Pound Data_Editorial, for Outside County in Library reference LR-J-107 (page 20) is where this 50 percent passthrough takes place. Rows 14, 15 and 16, under the heading "Rate Savings from Zone 1 & 2 Rate" is where the cost avoidances for advertising pounds are divided by 2. In essence that is a 50 percent passthrough of these cost avoidances to calculate the dropship rates for editorial pounds.

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ABM-MH/USPS-T34-23. At lines 23-25 of page 7 of USPST34, Mr. Taufique states: "In other words, only half of the transportation and non-transportation cost avoidances derived for advertising pounds are applied to the calculation of editorial pound dropship rates." With respect to this statement, please state whether 100% of the transportation and non-transportation cost avoidances that were derived for advertising pounds were applied to the Postal Service's calculation of advertising pound drop ship and zone rates in this case. Include workpapers with supporting references that demonstrate the exact percent of transportation and non-transportation cost avoidances that are applied to the advertising pound rates that are proposed in this case.

RESPONSE:

Allocation of transportation cost is relatively straightforward. In the worksheet "Pound Data_Adv" (page 18 of 30) Cell C39 has the total transportation cost. The allocation to the advertising portion takes place in Cell C40. Distance-related and nondistance-related transportation costs are calculated in Cells C41 and C42 respectively. Cell C43 contains the average nondistance-related transportation cost which is added to all advertising pound rate cells except DDU. The amount in Cell C41 is allocated to all zones plus the destination ADC rate. 100 percent of transportation cost avoidances are reflected in the differences in rates for the various zones.

The allocation of non-transportation cost savings is a bit more complicated. Worksheet "Discounts" (page 21 of 30) contains the total savings on a per-piece and per-pound basis. In Cells C10, C11 and C12 (DDU, DSCF, & DADC) total savings are stated on a per-piece basis while in Cells D10, D11 and D12 (DDU, DSCF, & DADC) total savings are stated on a per-pound basis. These savings

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are allocated to pounds and pieces equally. That is the reason for 50 percent in Cells C47, C48, and C49 in the worksheet Pound Data_Adv (page 18 of 30). A similar allocation of 50 percent to the piece portion appears in worksheet "Piece Discounts 2" (page 23 of 30) in Cells C17 through C19.

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ABM-MH/USPS-T34-24. On page 8 of USPS-T-34, at lines 3-5, Mr. Taufique states: "The Postal Service believes that this additional incentive may help both large and small mailers and has the potential to move significant volume of mail to destinating facilities." With respect to this statement, please confirm that any Periodical mailer whose mailings include advertising that currently faces zoned advertising pound rates already has an incentive to move volumes of mail to destinating facilities. Please explain any answer other than a confirmation.

RESPONSE:

Confirmed. There is already an incentive for advertising pounds, but advertising pounds account for only 43.5 percent of total pounds in the Outside County subclass. The Postal Service's proposal extends a portion of that incentive to the other 56.5 percent which is the editorial content in terms of weight.

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ABM-MH/USPS-T34-25. On page 8 of USPS-T-34, at lines 3-5, Mr. Taufique states: "The Postal Service believes that this additional incentive may help both large and small mailers and has the potential to move significant volume of mail to destinating facilities." With respect to the this statement, please confirm that any Periodical mailer seeking to improve on the delivery times that are actually achieved by the Postal Service already has an incentive to move volumes of mail to destinating facilities. Please explain any answer other than a confirmation.

RESPONSE:

Confirmed in the sense that mailers, including First-Class Mail mailers, have service incentives to move volumes of mail closer to destination facilities.

However, service incentives are not the same as economic incentives.

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ABM-MH/USPS-T34-28. On page 8 of USPS-T-34, at lines 9-12, Mr. Taufique states that the "issue of timely delivery of Periodicals" has not been brought to "closure." Please explain fully the nature of the "issue" referenced by Mr. Taufique.

RESPONSE:

In Docket No. R2000-1, witness Jones (PFPA-T-1) of the Professional Football Publication Association (PFPA) discussed the importance of timely delivery and the impact of delivery failures on the operations of his membership.

The Postal Service working with the MTAC Periodical Service Improvement Team has undertaken a number of initiatives focused on improvement of service for Periodicals mailers. The issues referred to are those presented by witness Jones; and the meaning of my statement is that although I believe progress is being made, I do not believe the issues concerning timely delivery have been fully resolved. It is worth noting that many of the service issues arise with smaller mailings that are not entered at destinating facilities and must be handled several times. I believe that the co-mailing and dropshipping that would be encouraged by the Postal Service proposal would be one tool in addressing these service issues.

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ABM-MH/USPS-T34-29. On page 8 of USPS-T34, at lines 9-12, Mr. Taufique states that the "issue of timely delivery of Periodicals" has not been brought to "closure." Please provide all studies, estimates or data of any kind relied on by Mr. Taufique that quantify the USPS's delivery performance for Periodicals in the last three years. If the Postal Service has no supporting studies, estimates or other data that quantifies its delivery performance in Periodicals over the last three years, please so state.

RESPONSE:

See my response to ABM-MH/USPS-T34-28. To the best of my knowledge, the Postal Service has not performed any studies that quantify Periodicals delivery performance during the last three years.

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ABM-MH/USPS-T34-32. At lines 23-24 of page 8 of USPS-T34, Mr. Taufique states: "Also the Postal Service proposal provides time for mailers to take a fresh look at comailing and commingling." With respect to this statement, please define the terms "comailing" and "commingling" and provide examples of each.

RESPONSE:

Please see my response to CRPA-NFIP/USPS-T-34-7.

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ABM-MH/USPS-T34-33. At line 5 of page 9 of USPS-T34, Mr. Taufique states that he has made use of "average haul" figures in determining pound rates for Periodicals in this case. With respect to these figures, please provide underlying documents that support the derivation of these average haul figures and explain the period over which these average haul data were measured.

RESPONSE:

The average haul miles used in the calculation of zoned advertising pound rates have been in use by the Postal Service and the Commission since at least Docket No. R87-1. The only revision came about in Docket No. R90-1, when the average haul for Zones 1 & 2 was increased from 133 miles to 189 miles. The same average haul miles were used in Dockets No. R90-1, R94-1, MC95-1, R97-1 and R2000-1. Scanning the workpapers and interrogatory responses for previous cases reveals that the original estimation of the average haul miles dates back to the mid-1970s.

The revision that was made in the current filing was the addition of average haul for destination ADC. The derivation of DADC average haul is discussed in my response to Presiding Officer's Information Request No. 3, question 2.

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ABM-MH/USPS-T34-34. At line 6 of page 9 of USPS-T34, Mr. Taufique states that he has used "the calculation of pound miles to allocate distance-related transportation cost." With respect to this statement, please define "distance-related transportation costs," and explain how the transportation cost totals that are alleged to be distance-related in this case can be validated or verified.

RESPONSE:

A quote from page 3 witness Pickett's (USPS-T-17) direct testimony provides a brief description of distance-related transportation cost.

The rate designs for certain zone-rated products rely on drawing a distinction between distance- and non-distance-related transportation costs. The calculation of these costs follows the Commission's methodology used in prior cases. The base year and test year calculations appear in an Excel spreadsheet in USPS Library Reference J-43. Test Year FedEx network costs are treated as non-distance related in light of the fact that there is no mileage component to the rates FedEx charges for transportation service.

These calculations can be validated and verified by reviewing Library Reference LR-J-43 filed by witness Pickett (USPS-T-17).

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ABM-MH/USPS-T34-35. At lines 6-7 of page 9 of USPS-T34, Mr. Taufique states that: "the allocation of residual revenue requirement on a per pound basis" is based on traditional ratemaking practices established in previous cases. Please define "revenue requirement" as used in that statement, and explain the basis for your definition (including, without limitation, any legal basis).

RESPONSE:

I use "Revenue Requirement" to refer to the overall revenue that Periodicals should contribute to the Postal Service's overall revenue requirement. In this context the residual revenue requirement means the amount of money to be raised from pound rates after transportation cost is allocated. Essentially it is the difference between the total amount of dollars allocated to pound rates (40 percent of total Outside County Periodical revenue) minus the purchased transportation cost in the test year.

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ABM-MH/USPS-T34-36. At lines 6-7 of page 9 of USPS-T34, Mr. Taufique states that: "the allocation of residual revenue requirement on a per pound basis" is based on traditional ratemaking practices established in previous cases. With respect to this statement, please confirm that the Postal Service has no data or cost analyses of any kind that support its current proposal to allocate the residual revenue "requirement" for Periodicals on a per pound basis. If such data does exist, please provide it.

RESPONSE:

No such data exist in the current docket nor have data existed in previous rate dockets. The precedent that was established many years ago was to raise 40 percent of *Periodicals Regular Rate* (the predecessor to the Outside County subclass) revenue from pound rates and 60 percent from piece rates. (Nonprofit, Classroom and Within County had different allocations in some cases.) Transportation costs are allocated based on pound miles (the product of average haul and advertising pounds by zones). Once that allocation is complete, rates are derived to reflect these costs. The revenue raised from the resulting rates is calculated, and this revenue is subtracted from the revenue that was derived originally using the 40 percent allocation. The shortfall is the residual revenue that is discussed in my testimony. A similar methodology has been used since before I filed my first Periodicals testimony in Docket No. R97-1.

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ABM-MH/USPS-T34-37. At lines 20-21 of page 9 of USPST34, Mr. Tautique states, "The Postal Service is proposing a per-piece pallet discount for flat-shaped mail, regardless of the pallet presort level." With respect to this statement, please state why this discount is offered on a per-piece basis rather than a per-pound basis, on a combined piece and pound basis.

RESPONSE:

The cost savings are on a per container basis. Since container handling falls under mail processing, which is essentially piece related, the Postal Service believes that the container cost savings are piece related. A simultaneous per-piece, per-pound rate structure could be cumbersome.

With these caveats in mind, the Postal Service is not unalterably opposed to a per-piece, per-pound discount rate structure provided these concerns could be addressed.

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ABM-MH/USPS-T34-38. At lines 20-21 of page 9 of USPS-T34, Mr. Taufique states, "The Postal Service is proposing a per-piece pallet discount for flat-shaped mail, regardless of the pallet presort level." With respect to this proposal, please state the minimum weight requirements per pallet that will apply, and whether alternative minimum weight requirements were ever considered by the USPS for this proposal. If so, please state what those alternatives were and why they were rejected.

RESPONSE:

The minimum weight to qualify for the per-piece pallet discount is 250 pounds. 180 pound pallets are currently being used by some mailers for service reasons, but pieces on those pallets would not be eligible for this discount. The Postal Service plans to study the optimum size for pallets and may use the information in future rate or reclassification proceedings.

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ABM-MH/USPS-T34-39. With respect to the per-piece pallet discount proposal that is discussed at page 9-10 of USPS-T-34, please provide all data or studies of any kind that quantify the amount and/or type of mail (in terms of its current makeup and sortation level or otherwise) that is expected to shift from sacks (or other containers) to pallets in response to the per piece pallet discount.

RESPONSE:

The Postal Service has not estimated any potential shift from sacks or containers to pallets that may result from the per-piece pallet discount proposal. The per-piece pallet discount was based on the cost estimate derived by witness Schenk and provided at USPS-LR-J-100, Table 1.

Recently the Magazine Publishers of America (MPA) wrote to the Postal Service concerning preliminary membership feedback on the effect of the proposed Periodicals rate structure. Their letter is included as an attachment to CRPA-NFIP/USPS-T34-14(c). This preliminary feedback indicates that the Periodicals rate proposal will encourage palletization.

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ABM-MWUSPS-T34-40. With respect to the per-piece pallet discount proposal that is discussed at page 9-10 of USPS-T-34, please provide all data or studies of any kind that quantify the extent to which differences in delivery times (as between mail entered on sacks and mail entered on pallets) will affect the manner and the extent to which mailers will take advantage of the proposed pallet discount.

RESPONSE:

I am not familiar with any studies that deal with the subject of delivery time and its relationship to the containers in or on which the mail is prepared. One would generally expect a positive correlation between palletized mail and shorter delivery times for the simple reason that most dropshipped mail is on pallets rather than on sacks.

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ABM-MH/USPS-T34-41. At lines 24 of page 11 and lines 1-2 of page 12 of USPS-T34, Mr. Taufique states: "the partial zoning of editorial pounds should go a long way in sending correct signals for dropship decisions." Please explain fully what Mr. Taufique means by "correct signals" and why "correct signals" for dropship decisions are not now sent through zoned rates for advertising pounds in Periodicals.

RESPONSE:

"Correct signals" in this context implies that pricing signals would allow mailers to perform the work when it is cheaper for them to do the work. These signals generally lead to lowest combined cost for transporting, processing, and distributing mail pieces in question.

Correct signals are now sent through zoned rates for advertising pounds in Periodicals but advertising pounds make up less than 50 percent of the pounds mailed by the industry. The Postal Service's proposal extends a portion of these "correct signals" to the rest of the pounds.

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ABM-MH/USPS-T34-42. In Mr. Taufique's response to CRPA-NFIP/USPS-T34-4(a), he states that: "One would expect that mailers would perform the additional work [required as part of worksharing] only if their cost was less than the discount provided by the Postal Service." (*Emphasis added*). With respect to this response, please confirm that it is Mr. Taufique's testimony that Periodicals mailers engage in worksharing efforts "only" if their costs are less than the discounts offered by the USPS. Please explain any answer other than a confirmation.

RESPONSE:

Not confirmed. My statement implied that just because a discount is offered does not mean that worksharing would automatically be performed by mailers.

Worksharing could be performed by mailers for other reasons such as desired improvement in delivery times.

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ABM-MH/USPS-T34-44. With respect to USPS-LR-J-107, please confirm that the TYAR proportion of Periodicals revenue to be derived from piece rates can be correctly altered solely by changing the general design input that appears in row 15 of page 19 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how this proportion could correctly be altered.

RESPONSE:

Confirmed assuming that you are referring to row 15 of page 17 of 30.

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ABM-MH/USPS-T34-45. With respect to USPS-LR-J-107, please confirm that the TYAR proportion of Transportation Cost that is Distance Related can be correctly altered solely by changing the general design input that appears in row 18 of page 19 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how this proportion could correctly be altered.

RESPONSE:

Confirmed assuming that you are referring to row 18 of page 17 of 30.

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ABM-MH/USPS-T34-46. With respect to USPS-LR-J-107, please confirm that the TYAR pass-throughs of unit cost savings for piece discounts in Periodicals can be correctly altered solely by changing the general design inputs that appear in rows 5 to 20 of page 25 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how these proportions could correctly be altered.

RESPONSE:

Confirmed assuming that you are referring to rows 5 to 20 of page 23 of 30.

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ABM-MH/USPS-T34-47. Please confirm the following, and explain your answer fully to the extent that you are unable to confirm:

(a) In Docket R97-1, at pages 522-24, the Commission rejected your proposal to depart from the longstanding practice of setting the editorial pound rate for Periodicals mail at 75 percent of the advertising pound rate for Zones 1 & 2, finding that your approach "might diminish the 'widespread dissemination of editorial content through the mail."

(b) The basic editorial pound charge (20.3 cents) proposed by you for Outside County Periodicals mail in this case nevertheless exceeds 75 percent of the proposed advertising pound charge (25 cents) for Zones 1 & 2, and reflects an increase (13.4 percent) significantly above the proposed average increase (10.4 percent) for Outside County Periodicals mail.

(c) The reason for this disproportionate proposed increase in the basic editorial pound charge is that, as stated at pages 11-12 of your testimony, you have also proposed the "partial zoning of editorial pounds" in order to further reward dropshipping of Outside County Periodicals mail.

(d) Of the TYAR Periodicals mail volume that the Postal Service estimates would be entered in the proposed DADC zone for editorial pounds, 84 percent is already being entered at the DADC, and the remainder is already being entered in the DADC service territory, as indicated in your response to MPA/USPS-T34-10(a)-(c).

(e) To that extent at least, the proposed "partial zoning of editorial pounds" would not reduce Postal Service costs overall, but rather would decrease the revenues it received from Periodicals mailers already entering their mail at the DADC, and shift that revenue burden to those Periodicals mailers who rely on the basic editorial pound rate.

(f) The same conclusion applies with respect to TYAR Periodicals mail volume that the Postal Service estimates would be entered in the proposed DSCF and DDU zones for editorial pounds.

RESPONSE:

(a) Partially confirmed. The Postal Service proposal in Docket No. R97-1 dealt with the cost coverage of editorial pounds, an issue that the Commission had

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ABM-MH/USPS-T34-47 (CONTINUED)

RESPONSE:

raised in previous dockets. The proposal put forth by the Postal Service in Docket No. R97-1 would have increased the overall share of revenue raised by the rates paid for editorial pounds. In this docket the Postal Service's proposed methodology does not burden the editorial pounds more than their historical share.

(b) Confirmed. But I take exception to "significantly above the proposed average increase". The rate increase in one cell has to be considered in relation to its contribution to the overall postage. The analysis provided in my response to your interrogatory ABM-MH/USPS-T34-12 is helpful in putting things in perspective.

(c) Partially confirmed. Instead of "reward dropshipping" I would use "provide a further incentive to promote additional dropshipment" to describe the rate design initiative.

(d-f) Confirmed. The TYAR volume in this proposal reflects essentially the same billing determinants as Base Year with the exception of the new rate cells that were estimated (these exceptions are discussed in my response to MPA/USPS-T34-7). The practice of using constant billing determinants is not new in the context of postal ratemaking, especially in the area of Periodicals rate design. When an exact estimate of increased worksharing is not available, constant billing determinants are used for rate design purposes. This does not imply that the Postal Service is not expecting a change in volume in the rate cells or

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ABM-MH/USPS-T34-47 (CONTINUED)

RESPONSE:

categories for which new incentives are provided. Obviously the growth in DADC, DSCF or DDU volume would reduce postal revenues but at the same time there should be a corresponding and greater reduction in cost as a result of the new volume being dropshipped or palletized.

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ABM-MH/USPS-T34-48. Please refer to your statement in response to Presiding Officer's Information Request No. 3, Question 3(a), that under your proposal, "regardless of rate design changes, editorial pounds would not be burdened by more than their historical share."

(a) Please confirm that while your statement may be true as to the editorial pounds of the Outside County Periodicals subclass as a whole, it is not necessarily true as to the editorial pounds of any particular Outside County Periodicals mailer.

(b) Please confirm that under your proposal, the editorial pounds of all Outside County Periodicals mailers who relied upon the basic editorial pound rate (historically set at 75 percent of the Zone 1 & 2 advertising pound rate), rather than the proposed DADC, DSCF, and/or DDU editorial pound rates, would indeed be "burdened by more than their historical share."

(c) With reference to your testimony at p. 6, lines 21-25, please state whether you believe that the public policy of promoting the widespread dissemination of editorial content (and thereby "binding the nation together") should apply with any less force to periodicals characterized by a relatively high editorial percentage but lacking sufficient circulation density (or comailing opportunity) to be dropshipped economically. Please explain your answer fully.

RESPONSE:

(a) Confirmed, but only for some mailers. Some Outside County mailers who are able to take advantage of the proposed incentives would be able to reduce their overall postage. The postage plus the cost of additional worksharing would be less than the postage alone absent worksharing. Some mailers who may be not be able to take advantage of these incentives will be burdened a bit more than if these worksharing discounts were not offered. The Postal Service's proposal maintains this delicate balance between economic efficiency and public policy. See my response to ABM-MH/USPS-T34-12 to understand the relative magnitude of this burden.

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ABM-MH/USPS-T34-48 (CONTINUED)

RESPONSE:

(b) Confirmed. Again this burden when put in perspective is not as significant as the difference between 10.4 and 13.4 percent as pointed out in my response to your interrogatory ABM-MH/USPS-T34-47, subpart b.

(c) I do not believe that the public policy of promoting the widespread dissemination of editorial content (and thereby "binding the nation together") should apply with any less force to periodicals characterized by a relatively high editorial percentage but lacking sufficient circulation density (or comailing opportunity) to be dropshipped economically. Having said that, I also believe that economic realities facing the Periodicals class requires the Postal Service, Postal Rate Commission, and the mailers to explore new means to improve what appears to be broken with this class, i.e. above-average cost increases, and to do it in a fashion that achieves the dual objective of public policy and economic efficiency.

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ABM-MH/USPS-T34-49. Please refer to your response to MPA/USPS-T34-19(c), where you state that a reason for limiting the proposed dropship discounts for editorial pounds, by passing through only 50 percent of the cost avoidances, was “[m]aintaining the balance between economic efficiency (dropship incentives for editorial pounds) and dissemination of information (maintaining a reasonable unzoned editorial pound rate).”

(a) Please confirm that in your view, a greater than 50 percent passthrough would fail to maintain an appropriate balance between economic efficiency and dissemination of information. If you do not confirm, please explain your answer fully.

(b) Please confirm that under your proposal, the 50 percent passthrough is not intended simply as a temporary measure (until a future rate case when greater passthroughs could be phased in with supposedly less impact on high-editorial Periodicals mailers who cannot dropship), but rather is intended to be preserved in future cases, similar to the historical practice of setting the editorial pound rate at 75 percent of the Zone 1 & 2 advertising pound rate. If you do not confirm, please explain your answer fully.

(c) Please specify the Outside County Periodicals editorial pound rates that would result if you had used a 100 percent passthrough rather than a 50 percent passthrough, and explain how your calculations can be verified.

RESPONSE:

(a) Confirmed. In the context of the current filing, we feel that a 50 percent passthrough would maintain an appropriate balance between economic efficiency and dissemination of information.

(b) I cannot comment on the Postal Service's proposals in future rate cases, but I can assure you that there is no vendetta within the Postal Service against high-editorial Periodicals mailers that cannot dropship. The Postal Service has sought to maintain a balance in this filing and would hope to do the same thing in future.

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ABM-MH/USPS-T34-49 (CONTINUED)

RESPONSE:

(c) A 100-percent passthrough would increase the unzoned editorial pound rate to 21.2 cents instead of the 20.3 cents proposed by the Postal Service. The DADC editorial pound rate would be 18.7 cents, the DSCF editorial pound rate would be 16.6 cents, and the DDU editorial pound rate would be 12.2 cents.

My calculations can be verified by changing the following cells in the worksheet "Pound Data_Ed":

1. In the edit mode, remove "/2" from cells C1, C15 and C16.
2. Change cell C22 from "Round((1-0.75)*0.203, 3)" to "Round((1-0.75)*0.212, 3)".

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ABM-MH/USPS-T34-50. In the Worksheet - Pound Data Advertising of USPS-LR-J-107 at cells E 56 and F 56, Mr. Taufique reports negative transportation costs per pound and negative revenue. Please explain how these Periodicals can have negative transportation costs. If these cells are in error, please provide a corrected worksheet.

RESPONSE:

The values in Cells E56 and F56 are accurate. These cells refer to the allocation of transportation cost to advertising pounds in the DDU rate category. The DDU rate does not include any transportation cost. Neither distance-related nor nondistance-related transportation cost is allocated to the DDU rate. So we start with zero for transportation cost for this rate cell. Then, non-transportation related cost savings are subtracted from this zero. The additional non-transportation related cost savings moving from DADC to DDU (E49-E47 in the same worksheet) are 3.4 cents, and that is what shows up in cell E56. Zero transportation cost minus the non-transportation cost savings is reflected in that number.

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ABM-MH/USPS-T34-51. In cell E 56 of the Worksheet - Pound Data Advertising of USPS-LR-J-107, please explain why the reference to cell E 57 appears in the underlying formula. If any underlying reference in cell E 56 is in error, please correct it and provide a narrative explanation of the corrected cell references.

RESPONSE:

The reference to E57 is accurate, but the algebra could be simplified. As I have explained in my response to ABM-MH/USPS-T34-50, the value in cell E56 is zero transportation cost minus non-transportation cost savings. The algebra in the spreadsheet uses a step-by-step approach, but it is the difference between DADC and DDU non-transportation cost savings.

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ABM-MH/USPS-T34-52. In the Worksheet - Pound Data Advertising of USPS-LR-J-107, at cells E 56, E 57 and E 58, there are underlying references to cells E 47, E 48 and E 49. These cells appear to reflect the "Final Discount" figures that are reported after having taken account of the proposed 50% passthrough for the Pound Rate Dropship Discount. Please explain why 50% passthroughs of the, reported Pound Rate Dropship Cost Savings are used in the derivation of these Advertising Pound Rates. If these cell references are in error, please provide a narrative explanation of any correction and a corrected worksheet.

RESPONSE:

The arithmetic is accurate and the 50 percent allocation is accurate. The choice of the word passthrough may not be totally appropriate. The values reflected in column C, rows 47, 48, and 49 are the total non-transportation cost savings assessed per-pound. Since these savings are allocated equally between pounds and pieces, 50 percent reflects this allocation to pounds. A similar 50 percent allocation to the piece portion can be found in worksheet Piece Discounts 2 in cells D17, D18, D19.

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ABM-MH/USPS-T34-53. USPS witness Mayes (USPS-T23) calculates the non-transportation dropship cost savings associated with DSCF-entered Periodicals as \$0.0350 per pound and the non-transportation dropship cost savings associated with DDU-entered Periodicals as \$0.0748 per pound. Based on these calculations, the increase in cost savings for DDU-entered Periodicals relative to DSCF- entered Periodicals appears to be \$0.0398 per pound (\$0.0748 less \$0.035). Mr Taufique's proposed advertising pound rates are \$0.204 per pound for destinating SCF Periodicals and \$0.16 per pound for destinating DDU-entered Periodicals. The proposed increased rate incentive to drop ship at the DDU thus appears to be \$0.044 per pound (\$0.204 less \$0.16). If these calculations are correct, please confirm them and explain fully why the USPS is proposing advertising pound rates in which the dropship rate incentives for DDU-entered Periodicals (relative to DSCF-entered Periodicals) appear to exceed the dropship cost savings that the USPS would realize from this activity.

RESPONSE:

The non-transportation cost savings between DSCF and DDU are actually \$0.02 and not 0.0398. As I have explained in my response to ABM-MH/USPS-T34-52, the final discount is based on a 50 percent allocation to pound-related rates. The difference between \$0.038 (cell E 47 worksheet Pound Data_Ad) and \$0.018 (cell E 48 worksheet Pound Data_Ad) is \$0.02. Another difference between the DSCF and DDU rates is that the DDU rate does not include any transportation cost. The nondistance-related transportation cost on a per-pound basis is \$0.024 (cell C43 worksheet Pound Data_Ad). The sum of \$0.02 and \$0.024 is \$0.044, which is also the difference between the two rate cells as calculated in your question.

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ABM-MH/USPS-T34-54. Please confirm the following. If you are unable to confirm, please explain fully.

(a) In the Worksheet - Pound Data Editorial of USPS-LR-J-107 at cell C3, Mr. Taufique shows total "Revenue needed" from editorial pounds prior to the addition of revenue leakage in the amount of \$475,222,712. In the same worksheet, at cell C7, Mr. Taufique shows "editorial pounds" in the amount of 2,452,358,762. Dividing the editorial pound rate revenues from cell C3 by the editorial pounds in cell C7 yields an average editorial pound rate of \$0.194 per pound. All else equal, if the USPS had not decided to propose dropship rates for editorial pounds in this case, a flat editorial pound rate of \$0.194 would have been sufficient to provide the total revenue required for editorial pounds of Outside-County Periodicals mailers in this case.

(b) A flat editorial pound rate of \$0.187 would result if the traditional rule that the flat editorial pound rate for Outside-County (Regular-Rate) Periodicals should be set at 75 percent of the Zone 1 & 2 advertising pound rate for such mail is applied to the proposed Zone 1 & 2 advertising pound rate of \$0.250.

(c) A flat editorial pound rate of \$0.192 would result if the traditional rule that the flat editorial pound rate for Outside-County (Regular-Rate) Periodicals should be set at 75 percent of the Zone 1 & 2 advertising pound rate for such mail is applied to the proposed Zone 1 & 2 advertising pound rate of \$0.256 which, according to your response to Presiding Officer's Information Request No. 3, Question 3(d), is derived by using the traditional methodology for determining the advertising pound rates for such mail.

RESPONSE:

(a) Confirmed.

(b) The rate would be \$0.188 if rounded accurately.

(c) Confirmed.

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ABM-MH/USPS-T34-55. In the four page Attachment to his response to CRPA-NFIP/USPS-T34-5(c), Mr. Taufique, presents a summary of an "Internet Search" for comailing and co-palletization services. With respect to this "Search," please provide hard copies of all underlying web pages and site references that are relied upon to support the statements and conclusions that appear in the four page Attachment.

RESPONSE:

The Attachment was developed based on a brief review of the websites identified under the "Results" section. The review concentrated on the portions of the websites describing the company in general, and the products and services offered, particularly the distribution or transportation services offered. Specific information can be found at the following sites included in the primary site or linked with that site.

Quebecor World

1. www.quebecorworld.com/htmen/0_1/0_1.htm (Click "Quebecor World at a Glance")

2. www.quebecorworld.com/htmen/2_0/2_3.htm

3. www.quebecorworld.com/htmen/14_0/14_4.htm

4. www.quebecorworld.com/htmen/14_0/14_2.htm

Publishers Press

1. www.pubpress.com

2. www.pubpress.com/facts/fa_subs/fa_cap.htm

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ABM-MH/USPS-T34-55 (CONTINUED)

RESPONSE:

3. www.pubpress.com/facts/fa_subs/fa_pic.htm
4. www.pubpress.com/facts/fs_subs/fs_facts.htm
5. www.pubpress.com/caps/dist/fs_dis.htm
6. www.pubpress.com/i_update/iu_fs.htm
7. www.pubpress.com/i_update/iu_main.htm

Banta

1. www.banta.com
2. www.banta.com/prodserv/
3. www.banta.com/prodserv/pub.html
4. www.banta.com/invest/corpprof.html
5. www.banta.com/pubs/overview/distribution.html

Brown Printing

1. www.bpc.com/about_us.htm
2. www.bpc.com/distribution_news.htm

Perry Judds

1. www.judds.com
2. www.judds.com/marketserved/logistics.asp

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ABM-MH/USPS-T34-55 (CONTINUED)

RESPONSE:

Fairrington Transportation

1. www.fairrington.com

RR Donnelley & Sons Company

1. www.rrdonnelley.com/about/
2. www.rrdonnelley.com/services/distribution/
3. www.rrdonnelley.com/products/magazines/
4. www.rrdonnelley.com/products/magazines/consumer/
5. www.donnelleylogistics.com/

Quad/Graphics

1. www.qg.com/whoweare/history.html
 2. www.qg.com/prodserv/qgd.html
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ABM-MH/USPS-T34-56. On page 2 of the four page Attachment to his response to CRPA-NFIP/USPS-T34-5(c), Mr. Taufique mentions that "an attempt was made to determine if the co-mail, co-palletization and drop shipping services [of certain printing and/or distribution companies] were available to publishers of periodicals with an average circulation of approximately 50,000 copies per issue."

- (a) Please list the companies reviewed for which co-mail, co-palletization and drop shipping services were not apparently available to publishers of periodicals with an average circulation of approximately 50,000 copies per issue.
- (b) Please confirm that each company reviewed does not appear to offer co-mail, co-palletization, and drop shipping services to publishers whose average circulation was substantially less than 50,000 copies per issue. If you do not confirm, please explain fully.
- (c) Please explain why the Postal Service did not undertake to determine whether co-mail, co-palletization, and drop shipping services were available to publishers whose average circulation was substantially less than 50,000 copies per issue.

RESPONSE:

- (a) Since I have not contacted the companies directly, I do not believe it appropriate to conclude that a company does not offer a particular service based on the review of a corporate website.
- (b) Not confirmed. With the exception of the RR Donnelley & Sons Company site, the web sites are not specific concerning the volumes required to obtain co-mail, co-palletization, or dropshipping services. The RR Donnelley & Sons Company site identifies co-mailing as a service offered for "Consumer Magazines" with print runs of 150,000 copies, but the site does not mention the co-mail service under the "Specialized Publishing Services" category.

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ABM-MH/USPS-T34-56 (CONTINUED)

RESPONSE:

- (c) I do not understand CRPA/USPS-T34-5(c) to be a request to study commercial availability of co-mail, co-palletization, and dropshipping services for publishers whose average circulation was "substantially" less than 50,000 per issue.

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CRPA-NFIP/USPS-T-34-1. On p. 5 of your testimony, you state: "The editorial pound rate for Zones 1 & 2 through Zone 8 remains a uniform unzoned rate."

- (a) Please confirm that periodicals drop-shipped to Area Distribution Centers (ADC) which would qualify for the new ADC discount, could travel in postal transportation further than the 63 mile average haul input for Zones 1 & 2. (USPS-LR-J-107, p. 18). If you do not confirm, please explain why not.
- (b) Please confirm that a periodical drop-shipped for delivery within an ADC area could then travel within USPS transportation a distance equal to Zone 3 (150-300 miles). If you do not confirm, please explain why not.
- (c) Could a periodical dropshipped to an ADC area within which it is delivered, travel in postal transportation to a delivery point further than a Zone 3 distance? If not, explain why not.

RESPONSE:

a-c. Confirmed. In some cases, especially in the western part of the country, the distance between destination ADCs and delivery units could be in the range of zone 3 distance (150-300 miles or more). But in many cases (especially in large metropolitan areas) destination ADCs could be within a short distance of the destination SCF and the delivery unit. Interestingly, there is a negative correlation between the above discussed distances and the quantity of mail; i.e., it appears that the volume of mail processed and delivered in the metropolitan areas (where the distances between destination ADC and delivery unit are smaller) is significantly higher than the volume of mail for the areas where distances are greater.

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CRPA-NFIP/USPS-T-34-2. On p. 5 of your testimony you refer to recognition by Commission's R90-1 opinion and recommended decision of a ratemaking balance between social policy and economic efficiency. Please confirm that the Commission recommended and maintained an unzoned editorial pound rate in R90-1, despite a USPS proposal to the contrary, and that the Commission subsequently turned back another USPS effort to zone editorial content in Docket MC95-1 (reclassification case).

RESPONSE:

Confirmed. And that is precisely the reason why the Postal Service has chosen to maintain the unzoned editorial pound rate in this Docket.

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CRPA-NFIP/USPS-T-34-3. Based on your assertion that "proposed increased incentives for dropshipment, combined with a per-piece pallet discount...would help mitigate further cost increases" (USPS-T-34, at 6)

(a) Is it your assumption that private common carriers or non-postal over-the-road transportation are usually cheaper than USPS highway carriers, or where applicable, rail carriers with contracts with USPS?

(b) Please explain a positive or a negative answer to part (a) above, including the provision of market studies and comparisons upon which your conclusion is based.

(c) Please provide all customer surveys, market studies or minutes of meetings with mailer groups including, but not limited to, MTAC, since the issuance of the Commission's R2000-1 recommended opinion and decision, which demonstrate (1) the added quantity of palletized volumes in outside county Periodicals subclass if a discount for pallets were offered and (2) if available, the number of publications which now do not palletize, but would palletize, and their annual mailed circulations, if the Commission were to recommend a per-piece discount equal to or larger than the discount for pallets proposed in this case.

(d) If no such data requested in part (c) are available, do you have any basis, and if so, what is it, for estimation of the number of periodicals and their volumes which would palletize their pieces if the Commission were to adopt your pallet proposal?

RESPONSE:

(a) I have made no explicit assumption regarding the cost of private common carriers or non-postal over-the-road transportation in comparison to Postal Service highway carriers, or rail carriers with contracts with the Postal Service. Such assumptions are not necessary. The Postal Service is basing the discount on its analysis of postal costs and passing through only half of the estimated cost savings (for editorial pound dropshipment). Mailers that take advantage of the proposed discount will benefit from half of the cost savings while the overall Periodicals Outside County subclass is the recipient of the other half of this benefit. In the case of the pallet discount, 76 percent of the cost savings for any additional palletized pieces will revert back to the subclass as a whole.

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(b) Not applicable. See my response to subpart (a) above. The non-transportation dropshipment cost savings estimates that I relied upon are provided by witness Mayes (USPS-T-23), and in library reference J-68. The pallet cost savings are provided by witness Schenk (USPS-T-43) in library reference J-100.

(c) I do not have any responsive material to the question. Also please see my response to MPA/USPS-T34-1, subparts b & d.

(d) The estimate for palletized volume used by the Postal Service is based on the entry profile study presented by witness Loetscher in USPS-LR-J-114.

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CRPA-NFIP/USPS-T-34-4. On line 10 of p. 6 you state that additional work performed by mailers "may lead to a reduction in reported volume-variable costs and lower overall combined costs".

(a) Since worksharing discounts have existed for over 20 years, yet postal costs of periodicals continue to increase more than other subclasses for reasons not fully understood by USPS, why do you believe added and deeper worksharing discounts might reduce current costs, prior to a better understanding of what drives periodical costs?

(b) Please give examples of instances where worksharing discounts quantitatively resulted in a reduction in the rate of year-to-year periodical mail processing and transportation increases lower than comparable year-to-year increases in the cost of living (CPI index).

RESPONSE:

(a) I believe that the cost increases would have been higher if not for the worksharing incentives proposed by the Postal Service and recommended by the Commission. The discounts provided by the Postal Service for finer presort, barcoding, and dropshipping have provided incentives for mailers to do work, thus keeping the Postal Service from incurring the costs for that work. Additional worksharing discounts also can save postal costs by having mailers incur the costs instead. One would expect that mailers would perform the additional work only if their cost was less than the discount provided by the Postal Service.

(b) The rates for Docket No. R90-1 were implemented on February 3, 1991. That docket introduced the per-pound rates for DSCF & DDU dropshipment while maintaining the per-piece discounts for DSCF dropshipment and introducing a per-piece discount for DDU dropshipment. In FY 1992 mail processing cost per piece for the combined Outside County subclass decreased from \$0.061 to \$0.059, a reduction of 3.8 percent, while the calendar year CPI increase for 1992

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was 3 percent. In FY 1993 mail processing cost increased by only 0.3 percent and the overall attributable cost actually decreased by 4.9 percent. During a similar time period (calendar year 1993) CPI-U increased by 3 percent.

It is interesting to note that the realized increase in revenue per piece was less than the recommended increase in revenue per piece in Docket No. R90-1. In that docket all former subclasses of Outside County were recommended to receive an increase of greater than 23 percent. The Nonprofit and Classroom subclasses had recommended increases of as much as 28 percent. The actual increase in revenue per piece for Outside County was 12 percent in FY91, 6.1 percent in FY92 and -1.4 percent in FY93. The implication of this observation is simply that changes in mailer behavior as a result of worksharing incentives could actually reduce the impact of a rate increase on mailers.

Finally, in FY 1997 Purchased Transportation on a per unit basis declined from \$0.033 to \$0.032, a reduction of 3.9 percent, while CPI-U for a similar time period increased by 2.3 percent. This took place after the implementation of rates on July 1, 1996, including worksharing discounts, recommended in Docket No. MC95-1.

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CRPA-NFIP/USPS-T-34-5. Referring to your testimony, USPS-T-34, at 6, lines 14-17, you assume that "Larger destination entry discounts would provide further incentive for smaller and medium mailers to combine their mailings or versions to achieve the volumes necessary to justify the transportation for deeper downstream entry."

- (a) Have you or other postal witnesses made similar claims in past rate or classification cases? If so, identify each such reference.
- (b) If you or other postal witnesses have made similar claims in past rate or classification cases, please quantify the number of "smaller and medium mailers" who now combine mailings of different periodicals to achieve the volumes necessary to justify purchasing non-postal transportation for deeper downstream entry.
- (c) Can you identify either particular printing plants (by name and location) or specific periodical mailers using those plants, or consolidation facilities owned, leased or used by these plants, which in response to deeper postal discounts, have combined or comailed different publications of the same organization or mailings of different publications of different organizations? If you can identify these organizations and publications, provide if you can the volumes per mailing or the annual volumes mailed from these plants and/or facilities.
- (d) Is it more likely or less likely that larger destination discount benefits proposed in your testimony will primarily benefit higher-volume periodicals, (rather than smaller circulation periodicals) which already are palletized and dropshipped to SCF or DDU facilities? For the purpose of the interrogatory, assume a periodical with an average circulation per issue of less than 50,000 copies per issue, (see, e.g., your response to MPA/USPS-T34-13a), is smaller circulation.
- (e) According to USPS data from the PERMIT system (i.e., see Table 2, provided in response to MPA/USPS-T34-3) how many periodicals mail less than 50,000 copies per issue in the regular rate and in the nonprofit categories respectively? How many mail more than 50,000 copies per issue?

RESPONSE:

- (a) A review of the Commission's Opinion in Docket No. MC95-1 (e.g., page V-117) shows that Postal Service witness Pickett used a similar argument to support a much more ambitious rate structure change i.e., zoning of editorial pound rates. I am unable to provide each such reference. Also see Docket No. MC91-3, Tr. 1/99, 131 (witness Mitchell).

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(b) Since earlier proposals were not implemented, it would be unfair to ask if the desired results were achieved. I have no way of knowing from postage statement data if a particular mailing is part of a larger co-mailing or a stand-alone mailing.

(c) The proposed rate design for the dropship incentives has not previously been proposed, recommended, or implemented. I am attaching the results of a brief web search that we conducted. It appears that a number of printers are offering comailing/copalletization services for both large and small mailers.

(d) It appears that higher volume periodicals would be in a better position to take advantage of these additional dropship discounts because they tend to be more palletized and dropshipped. But if one looks at the data that witness Loetscher (USPS-T-41) has provided in response to interrogatory MPA/USPS-T41-2, it appears that smaller Nonprofit mailers have a significant portion of mail that would qualify for these discounts. The attached sheet provides the percent of publications that enter 50 percent or more of their mail at various locations. For example, for Nonprofit publications in mailing size ranging from 0-1,000, 35.5 percent of the mailers enter 50 percent or more of their mail at either the DDU, DSCF or Zones 1 & 2. In fact, most small size ranges have about 30 percent of their publication entering 50 percent or more copies at the DDU, DSCF or Zones

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1 & 2. This is especially significant because on average Nonprofit mail has approximately 80 percent editorial content.

(e) Based on the response to interrogatory MPA/USPS-T34-3 (re-directed to witness Loetscher, USPS-T-41) the number of periodicals mailing under 50,000 copies per issue and over 50,000 copies per issue are:

	Under 50,000	Over 50,000
Regular Rate:	15,747	779
Nonprofit :	7,795	361
Both:	103	5

Summary of Internet Search for Comailing and Co-Palletization Services

Scope

A review of Internet sites for eight full-service publishing and/or distribution firms was conducted on November 27, 2001. The review was limited to accessing the corporate websites to determine if transportation and distribution services were offered that would facilitate mailers' use of destination discounts. The companies were not contacted directly.

The Websites for the following companies were examined.

- Quebecor World
- R.R. Donnelley, Logistics Service
- Quad Graphics
- Brown Printing
- Perry Judds
- Publishers Press
- Banta
- Farrington Transportation

Summary of Review

A cursory review of the above identified company websites was performed with the purpose of identifying those companies offering co-mailing, co-palletization, and drop shipping services to periodical publishers. Due to the high level of information contained in these websites, the review focused on whether the company offered the above service, and it was not possible to identify specific plants or consolidation facilities offering the service or periodicals mailers using the services.

There are at least five of the eight identified companies offering some combination of drop ship, co-mail, and co-palletization services. They are RR Donnelley, Quebecor, Publishers Press, Banta, and Brown Printing. The remaining companies may offer or may plan to offer these services, but the availability was not apparent in the company website.

During the review an attempt was made to determine if the above services were available to the periodical publishers with relatively small volumes. Specific availability of these services by customer size could not be determined conclusively from the websites. But it appears that RR Donnelley, Banta, Publishers Press, Quad/Graphics, and Brown Printing do offer the services to relatively small publishers.

Results:

A cursory search of selected Internet websites was performed to identify companies offering co-mail, co-palletization, and/or drop shipping services to their customers. The following companies were identified as providing one or more of these services:

- RR Donnelley & Sons Company (www.donnelley.com)
- Quebecor World (www.quebecorworld.com)
- Publishers Press (www.pubpress.com)
- Banta (www.banta.com)
- Brown Printing Company (www.bpc.com)
- Quad/Graphics (www.qg.com)

This listing does not constitute a recommendation by the Postal Service and is not presented in any meaningful order. Additionally, the review was not exhaustive and may have excluded a number of potential service providers.

When performing this review, an attempt was made to determine if the co-mail, co-palletization, and drop shipping services were available to publishers of periodicals with an average circulation of approximately 50,000 copies per issue. The availability of these services to this market group could not be determined with certainty, but the following companies appear to offer these services to publishers of periodicals with moderate circulation: Publishers Press, Brown Printing Company, RR Donnelley, and Quad/Graphics.

Individual Website Review

1. Quebecor World

Quebecor World is a leading printer of consumer magazines with an output of over 1,000 titles and 5 billion copies annually. The company offers full service periodicals, publication, book, insert, specialty and direct mail printing services as well as logistics and mail list services. Printing and distribution facilities are located throughout North America.

Logistics and distribution services include co-mail, pool ship, and drop ship services. These services include co-palletization systems, an entry point planning and optimization system, load planning, consolidation, and a transportation management system to optimize and integrate distribution process.

2. Publishers Press

Publishers Press is a family owned company and the Website has limited company size and volume data. The company operates two printing facilities in Kentucky totaling 750,000 square feet.

Publishers Press specializes in special interest magazines and journals in standard, tabloid, and digest sizes. They offer a full range of printing services through distribution. The company initiated a co-palletization program in the Fall of 1997, and is now preparing to go national with a drop shipping program. Referred to as the CPDS (co-palletization / drop shipping) program, the company advertises the benefits as being:

- a faster cycle time reducing the distribution process by one to four days by drop shipping to nine strategic entry points effectively eliminating zone 5-8 rates 97% of the time;
- reduced damage by avoiding mailbags and sorting processes;
- trackability allowing the identification of sources of publication damage and delayed or missing deliveries;
- less administration and paperwork for the customer.

3. Banta

Banta offers printing, packaging, and fulfillment services for educational and general book publishers and special-interest magazine publishers, as well as providing printing and distribution services for consumer and business catalogs, direct marketing materials, and single-use health care products. The company had sales of approximately \$1.5 billion in FY 2000.

Of interest is that Banta is a leading printer of religious books, and specializes in short to medium length magazines and special interest publications. They produce over 700 special interest titles every year, often for publishers with fewer than five magazines, in runs of 10,000 to 300,000.

Banta identifies "Mailing Discount Qualification" and "Direct-Entry Plant Load System" as services under the distribution section of their website. Also under the assembly and fulfillment section they identify palletization, drop shipping and bulk shipping as services offered.

4. Brown Printing Company

Brown Printing Company is a large publications printer in the country with 500 magazine titles for more than 380 clients. Net sales are \$300 million. They are a subsidiary of Gruner+Jahr, a large European publisher that in turn is a subsidiary of Bertelsmann AG. Brown specializes in high quality, high volume printing of magazines, catalogs, and inserts.

Brown offers distribution services. Customers may use up to 200 postal system entry points. Brown acquires transportation services from outside organizations and ships approximately 3 billion pieces per year. Brown also uses two outside consolidators for distribution purposes. The companies' names are not provided.

Brown is currently evaluating how to get more of their periodicals mail palletized without affecting their plant costs.

5. Perry Judds

Perry Judd produces a variety of association publications. Their website provides a number of customer names (including Time, Business Week), but has limited information concerning the total number of customers or revenues.

Perry Judds Logistics Services distributes over 1 billion pieces annually through the mail or to newsstands. They provide consolidation services and enter mail at 225 SCFs. No specific mention of co-palletization.

6. Farrington Transportation

Rather than being a printer, Farrington is a transportation company offering consolidation and drop shipping services. There is no mention of co-mail or co-palletization services.

7. RR Donnelley & Sons Company

RR Donnelley is a large communications services company specializing in printing, manufacturing, and distribution of books, magazines, catalogs, and advertising inserts, along with other non-print related communications and product distribution services. The company had annual sales in FY 2000 of \$5.8 billion and operates 52 plants.

Through their Logistics business unit, RR Donnelley offers a range of logistics services from print distribution, package distribution, returns management, and other air and ground transportation services. RR Donnelley offers consolidation services and ships to approximately 300 SCFs at least three times a week. RR Donnelley also provides DDU drop ship services. Also co-mailing services are offered as one of their magazine distribution services

8. Quad/Graphics

Quad/Graphics is a privately held printer with \$2 billion of sales and 22 printing and production related facilities. The company specializes periodicals printing.

Quad/Graphics represents itself as the industry's largest pool-mail consolidator, trucking tens of millions of pounds each week to hundreds of postal facilities.

**Percent of Publications that entered 50 percent or more copies at DDU, SCF,
DDU or SCF, Zone 1 & 2 and DDU/SCF/Z 1 & 2**

Regular	DDU	SCF	DDU or SCF	Zone 1&2	DDU/SCF/Z1&2
0-1,000	0.45%	5.18%	6.02%	12.45%	31.48%
1,000-2,000	1.33%	9.20%	11.23%	14.50%	32.89%
2,000-5,000	1.26%	7.98%	9.61%	14.86%	28.97%
5,000-10,000	0.97%	6.59%	7.67%	12.31%	24.62%
10,000-25,000	0.66%	4.78%	5.54%	7.13%	16.25%
25,000-50,000	0.00%	8.36%	8.36%	2.88%	15.85%
50,000-75,000	0.00%	10.87%	11.41%	5.98%	22.83%
75,000-100,000	0.00%	13.57%	13.57%	1.94%	29.07%
100,000-200,000	0.00%	25.58%	27.91%	2.33%	44.19%
200,000-500,000	0.00%	20.00%	20.00%	0.83%	35.83%
500,000-1,000,000	0.00%	48.35%	48.35%	0.00%	63.74%
1 Million+	0.00%	59.70%	59.70%	0.00%	76.12%
Issue Estimate Not Available	2.57%	6.09%	9.20%	7.44%	22.73%

Nonprofit	DDU	SCF	DDU or SCF	Zone 1&2	DDU/SCF/Z1&2
0-1,000	0.39%	7.81%	8.20%	16.02%	35.55%
1,000-2,000	0.00%	6.42%	6.42%	19.27%	36.70%
2,000-5,000	0.00%	8.37%	8.37%	20.53%	34.98%
5,000-10,000	0.00%	5.14%	5.14%	19.16%	29.44%
10,000-25,000	0.21%	10.97%	11.80%	13.87%	33.95%
25,000-50,000	0.00%	10.87%	11.96%	13.04%	30.43%
50,000-75,000	0.00%	9.52%	9.52%	14.29%	30.95%
75,000-100,000	0.00%	5.33%	5.33%	21.33%	29.33%
100,000-200,000	0.00%	22.22%	22.22%	0.00%	33.33%
200,000-500,000	0.00%	15.56%	15.56%	26.67%	46.67%
500,000-1,000,000	0.00%	7.14%	7.14%	0.00%	14.29%
1 Million+	0.00%	23.08%	23.08%	0.00%	23.08%
Issue Estimate Not Available	0.00%	2.86%	2.86%	20.00%	37.14%

Regular & Nonprofit	DDU	SCF	DDU or SCF	Zone 1&2	DDU/SCF/Z1&2
0-1,000	0.00%	0.00%	0.00%	30.00%	30.00%
1,000-2,000	0.00%	0.00%	0.00%	0.00%	20.00%
2,000-5,000	0.00%	12.50%	12.50%	12.50%	25.00%
5,000-10,000	0.00%	0.00%	0.00%	40.00%	50.00%
10,000-25,000	0.00%	0.00%	0.00%	40.00%	50.00%
25,000-50,000	0.00%	0.00%	0.00%	0.00%	0.00%
50,000-75,000					
75,000-100,000	0.00%	0.00%	0.00%	0.00%	0.00%
100,000-200,000	0.00%	0.00%	0.00%	0.00%	100.00%
200,000-500,000					
500,000-1,000,000					
1 Million+					
Issue Estimate Not Available	7.69%	0.00%	7.69%	30.77%	46.15%

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CRPA-NFIP/USPS-T-34-6. On p, 7 of your testimony, you state that "I have chosen to allocate 50 percent of the transportation cost to advertising pounds to maintain this balance [i.e., mitigation of the effect of larger dropship discounts on advertising pounds entered into the more distant zones]. Explain and demonstrate how the rest of the transportation costs of Out-of-county Periodical Class are allocated?

RESPONSE:

Transportation cost and estimated pound miles are used to estimate the zone differentials for the calculation of advertising pound rates. Since the editorial pound rate is essentially unzoned, transportation cost is not allocated specifically to the calculation of editorial pound rates. Also, please see my response to Question 3 of Presiding Officer's Information Request No. 5.

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CRPA-NFIP/USPS-T-34-7. On pp.8-9 of your testimony you state that the USPS proposal to zone editorial content "provides time for mailers to take a fresh look at comailing and commingling".

(a) Please define your use of the terms "comailing" and "commingling".

(b) Was past USPS expectations of "comailing" and "commingling" as a means for small volume publications to dropship their volumes based on fact or supposition?

(c) Is current USPS expectation of Periodical Class comailing and/or commingling related to dropshipped added volumes not now dropshipped based on fact or supposition?

(d) If the expectation referred to in (c) above is based on fact, please supply underlying data and analyses which support or justify any such expectation.

(e) Do you assume that, given the above-"average" postal costs increases borne by smaller-volume national periodicals since R90-1, smaller circulation periodicals which are not palletized or dropshipped have not investigated the feasibility of comailing or commingling?

RESPONSE:

Comailing and commingling are sometimes used interchangeably. Also sometimes comailing is used when different titles are combined on one pallet and commingling is used when titles are combine in bundles or packages. The Postal Rate Commission has this definition, as provided in the Opinion and Recommended Decision, Docket No. MC95-1, page V-117:

Co-mailing is a form of worksharing. When a mailer co-mails, it combines its mail with that of other mailers to achieve a greater depth of presort. Current rates recognize that presortation and dropshipping involve avoiding Postal Service costs, and discounts reflect the benefits of such worksharing. When the mailer does the sorting, the Postal Service can sort bundles instead of pieces. Co-mailing involves commingling by the mailer, which results in larger mailings and allows the Postal Service to do less sorting. The cost savings to the Postal Service is largely due to the fact that it must do less sorting. A review of the record indicates that continuing developments in co-mailing technology, and related printing industry practices, may offer prospects for some additional low-density second-class mailers to achieve greater presort depth, and thereby reduce postage rates. However, the evidence on this record also points to a number of significant considerations, many

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intrinsically related to publishing and editorial decisions, that undermine its feasibility, in the near-term, as a tool for converting a publication's status from Regular Periodicals to Publications Service.

(b-d) The expectation for small-volume publications to utilize comailing and commingling for additional dropshipping due to proposed incentives is based on a simple economic proposition. Given the proposed economic incentives (that are based on a portion of the Postal Service's cost savings), if mailers find that the additional cost (monetary or otherwise) of comailing and commingling is lower than the resulting savings in postage then they would utilize this option. The same logic also applies to additional dropship volume. In the latter case the mailer would decide, based on relative costs, between buying transportation from the Postal Service or providing transportation itself.

As I have already stated in my response to MPA/USPS-T34-1, subpart c, it is difficult to quantify the change in dropship patterns due to the proposed discounts, but discussions with an industry expert leads me to believe that we could see a significant increase in the dropshipped volume in FY 2003.

(e) I am sure that smaller-volume national periodicals that are not palletized or dropshipped have investigated the feasibility of comailing or commingling. The proposed increased economic incentives in this docket are designed to help them take a fresh look at these options.

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CRPA-NFIP/USPS-T-34-8. Identify the "industry expert" and his/her title and place of employment to whom you refer in your response to MPA/USPS-T34-13a.

RESPONSE:

This person has requested that he not be identified.

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CRPA-NFIP/USPS-T-34-9. In your response to MPAIUSPS-T34-13a, you refer to "Small to medium (50,000-300,000 copies) publications and in part b, you refer to medium to large publications (150,000> 1 million copies). Of the total number of periodicals in both the nonprofit and regular rate Outside of County categories, how many are small, how many are medium, and how many are large, according to your definitions of those terms?

RESPONSE:

Since the data that I have available are in a slightly different increment, I can provide the following for Outside County Periodicals:

Range	Number of Publications in Range	Approximate FY2000 Mail Volume
0-50,000	23,645	2.1 Billion pieces
50,000-200,000	750	1.3 Billion pieces
200,000 to 1 million +	395	5.4 Billion pieces

Total volume will not match the FY 2000 Billing Determinants due to exclusion of some volume where issue frequency was not available.

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CRPA-NFIP/USPS-T-34-10. Your response to CRPA-NFIP/USPS-T-34-2 states that the Postal Service has chosen "to maintain the unzoned editorial pound rate in this docket."

(a) Confirm that USPS-LR-J-107, p.20 of 30, contains a rate schedule, lines 25-32, entitled "Proposed Editorial Rates and Revenue, which shows the following proposed rates for editorial pounds:

Destination DDU	\$0.158 per editorial pound
Destination SCF	\$0.180
Destination ADC	\$0.191
Unzoned Editorial Pound Rate	\$0.203

(b) Confirm that USPS-LR-J-107, pp. 8, 10, likewise shows the current editorial pound rate to be an identical 17.9 cents per editorial pound for all editorial weight, including periodicals entered at destination DDU's, destination SCF's, destination ADC's, and all other editorial periodical pounds which are transported through advertising postal zones 1-8.

RESPONSE:

(a) Confirmed.

(b) Confirmed. I still maintain that the Postal Service has maintained an unzoned editorial pound rate. Providing dropship incentives for destination entry does not change the fact that mail entered for any of Zone 1 through 8 pay the same editorial pound rate.

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CRPA-NFIP/USPS-T-34-12. You state in part in your answer to CRPA-NFIP/USPS-T-34-4(a) that, "One would expect that mailers would perform the additional work only if their cost was less than the discount provided by the Postal Service. "Do mailers perform mail preparation and containerization which exceed USPS requirements for reasons other than cost? If so, identify the reasons. If not, identify the basis for your negative response.

RESPONSE:

Yes. My statement implied that just because a discount is offered does not mean that worksharing would automatically be performed by the mailers. It is an economic decision that would in part be made by comparing mailers cost to do the additional work with the postal discount being offered. Worksharing could be performed by mailers for other reasons such as a desired improvement in delivery times.

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CRPA-NFIP/USPS-T-34-13. You assert in your response to CRPA-NFIP/USPS-T-34-4(b) that worksharing discounts implemented after Docket R90-1 caused FY 1992 mail processing costs per piece for the "combined Outside County subclass" to decrease 3.8%.

(a) Please provide similar mail processing per piece data for Outside County periodicals, year by year, from FY 1993-2000, inclusive.

(b) Is it possible that mail processing costs per piece could vary year to year for reasons other than the expansion or implementation of worksharing discounts? If your answer is affirmative, provide examples of non-discount factors that could increase or reduce per-piece processing costs. If your answer is negative, please provide the data, studies or economic analyses on which you rely.

(c) Your response to CRPA-NFIP/USPS-T-34-4(b) further claims that realized increases per piece in revenue for Outside County periodicals after R90-1 rates and discounts went into effect were less than recommended per-piece increases in that case. You further claim that, "The implication of this observation is simply that changes in mailer behavior as a result of worksharing incentives could actually reduce the impact of a rate increase on mailers.". Is the purpose of presort and other postal discounts to reduce revenue to the Postal Service while reducing the impact of a rate increase on some mailers who happen to be able to qualify for a discount? Explain any affirmative or negative answer in detail, with mention of specific factors that could cause an increase or a decrease in revenue per piece from a subclass because of presort and "worksharing incentives".

(d) The response to CRPA-NFIP/USPS-T-34-4(b) also refers to a decline in FY 1997 Purchased Transportation costs on a per-piece basis after changes in worksharing discounts were recommended in Docket MC95-1. For each year from FY 1998 through FY 2000, did Purchased Transportation costs increase or decrease on a per-piece basis and were there changes in periodical discounts implemented as a result of either the R97-1, or R2000-1 proceedings, which you believe affected the increase or decrease of Purchased Transportation costs attributed to Periodical mail?

RESPONSE:

(a) Please refer to page 1 of 2 of the attachment to my response to CRPA-NFIP/USPS-T34-13 for the cost data on mail processing from FY1991 to FY2000.

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(b) I am sure it is possible. I am not familiar enough with the costing methodology to answer your question. The only example that I can refer to is the 9 percent cost reduction between 1995 and 1996 which is partly due to a change in costing methodology.

(c) No. The purpose of worksharing discounts is to induce appropriate behavioral changes that would lead to lower combined cost for the subclass. The example cited by me in CRPA-NFIP-T-34-4(b) merely points out that mailers actually change behavior as a result of incentives provided. Revenue per piece could change because of changes in the components of billing determinants. For example, if all mailers prepared their mail to Carrier Route presort level and dropped their mail at the destination delivery unit, there would be a significant decline in the revenue per piece.

(d) Between FY1998 and FY1999 transportation cost increased by 2.5 percent. From FY1999 to FY2000 this cost grew by 2.4 percent. I do not believe that there were significant changes in dropshipment in Docket No. R2000-1. In Docket No. R97-1 piece discount for dropshipment decreased but there was a corresponding increase in the incentives for advertising pounds that are dropshipped.

Outside County Periodicals Mail Processing Costs Per Piece		
Year	Unit Cost	Percent Change
1991	\$ 0.061	
1992	\$ 0.059	-3.8%
1993	\$ 0.059	0.3%
1994	\$ 0.063	6.6%
1995	\$ 0.057	-9.0%
1996	\$ 0.064	11.8%
1997	\$ 0.067	5.4%
1998	\$ 0.072	6.8%
1999	\$ 0.079	10.3%
2000	\$ 0.082	3.8%

Outside County Periodicals Purchased Transportation Costs Per Piece		
Year	Unit Cost	Percent Change
1996	\$ 0.033	
1997	\$ 0.032	-3.9%
1998	\$ 0.036	11.0%
1999	\$ 0.037	2.5%
2000	\$ 0.037	2.4%

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CRPA-NFIP/USPS-T-34-15. The following two interrogatories follow-up your response to CRPA-NFIP/USPS-T-34-6:

(a) Do the USPS-proposed advertising pound rates (including ADC dropshipped volumes) applied to Outside County Periodicals recover all purchased transportation costs attributed by USPS to Outside County Periodicals? If your answer is either affirmative or negative, explain in detail which costs are recovered and which costs are not recovered by the advertising pound rates, and if not recovered by these rates explain which rates within the rate design do recover these costs.

(b) Do periodical pound rates which are not specifically allocated to advertising or editorial content, e.g., the so-called "residual" pound rate, contribute anything towards the payment of purchased transportation costs attributed to Outside County Periodicals? If they do, how much revenue do they contribute towards the recovery of purchased transportation costs attributed to Periodical mail and where in your workpapers or workpapers of other USPS witnesses is this information displayed?

RESPONSE:

a) Yes. The total revenue recovered from advertising pound rates is more than \$536 million (Cell F93-Worksheet Pound Data_Ad). Total transportation cost is in the range of \$360 million (Cell C39-Worksheet Pound Data_Ad). In that respect one can safely assume that transportation costs are recovered completely from advertising pound rates. The transportation cost allocated to advertising pounds is about \$180 million, which is definitely recovered from the revenue raised from advertising pound rates (Cell C40-Worksheet Pound Data_Ad).

The allocation of advertising pounds for calculating the advertising zone differentials raises different issues. For a discussion of those issues, please see my response to Presiding Officer's Information Request No. 5, question 3 and my response to ABM-MH/USPS-T34-19.

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(b) The pound rates are either for advertising content or editorial content. I am not aware of any residual pound rate.

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MPA/USPS-T34-1. In your testimony, you propose dropship discounts for editorial pounds, new per-piece and per-pound dropship discounts for mail entered at destination area distribution centers (DADC), and a per-piece pallet discount.

- (a) Has the Postal Service or any of its contractors performed any analyses to estimate the change in dropship patterns that will result from these rate design changes? If so, please provide a summary of all analyses performed.
- (b) Has the Postal Service or any of its contractors performed any analyses to estimate the change in containerization that will result from these rate design changes? If so, please provide a summary of all analyses performed.
- (c) Please provide your opinion on the extent to which these discounts will affect the number of Periodicals that will be dropshipped in FY2003.
- (d) Please provide your opinion on the extent to which these discounts will affect the number of Periodicals that are presented on pallets in FY2003.

RESPONSE

- a. No.
- b. No.
- c. It is difficult to quantify the change in dropship patterns due to the proposed discounts, but discussions with an industry expert leads me to believe that we could see a significant increase in the dropshipped volume in FY2003.
- d. In my opinion the proposed pallet discount alone may not cause a significant shift in the number of Periodicals that are presented on pallets in FY2003, but this proposal in combination with the additional dropship incentives that are proposed in this docket could increase palletized volume in FY2003. My understanding is that all dropshipped Periodicals pieces are on pallets.

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MPAUSPS-T34-5. Has the Postal Service or any of its contractors ever estimated the revenue that would be generated by and/or cost savings that would result from limiting the eligibility of piece in small sacks (e.g., containing less than 24 pieces) for presort discounts? If so, please provide the date each estimate was developed, the cost saving estimate, and all underlying calculations.

RESPONSE

No. My understanding is that the Postal Service or its contractors have not estimated such revenue or cost impact.

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MPA/USPS-T34-6. On page 13 of your testimony, you state, "While Optical Character Readers (OCRs) have reduced the value of barcodes, plans for processing flats (including delivery point sequencing) may make a slightly different (11-digit) barcode more valuable, in the longer term."

- (a) Please explain operationally why delivery point sequencing will make barcodes more valuable in the longer term.
- (b) What other plans for processing flats will make barcodes more valuable in the longer term?

RESPONSE

- (a) It is my understanding that in order to delivery point sequence, addresses on non-barcoded mail would need to be converted, either by an OCR or on-line video coding, to the full 11-digit level as opposed to the 9-digit level required in today's carrier-route sequencing environment. Due to this additional requirement, and since there are no plans to apply barcodes to non-barcoded flats, prebarcoded 11-digit flats will be more valuable in this environment. In addition, delivery point sequencing will likely require at least two passes on a flats sorter, so the non-barcoded flats would need to be handled multiple times by the OCR or on-line video coding in the DPS environment.
- (b) I am not aware of other plans that will affect the value of barcodes longer term.

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MPA/USPS-T34-7. Please confirm that the Test Year After Rates mail mix for the Periodicals Outside-County subclass used in USPS-LR-J-107, OC01.xls to calculate TYAR revenue is exactly the same as the FY 2000 Periodicals Outside-County mail mix. If not confirmed, please explain all differences.

RESPONSE

Not confirmed. In general FY2000 Periodicals Outside County billing determinants form the basis of TYAR revenues, but there are some exceptions, which can be evaluated by comparing FY2000 billing determinants to the Base Year billing determinants. These changes take place for Regular Rate, Science of Agriculture, Nonprofit and Classroom billing determinants.

On the pound side the estimation of Destinating ADC and Zones 1 & 2 and editorial pounds for dropship destinations is based on the calculation performed in worksheet 'calc. of new cells'.

On the piece side all the 3/5 combined volume in FY2000 billing determinants is added to 3-Digit in the Base year. Volumes for per-piece discount for pieces entered at the destinating ADC and palletized pieces are also calculated in the worksheet 'calc. of new cells'.

The reported TYAR revenue is the sum of individual revenues for Regular Rate (including SOA), Nonprofit (after 5 percent discount), and Classroom (after 5 percent discount). Ride-Along and fee revenue is also included.

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MPA/USPS-T34-8. Please refer to page 4 of your testimony, where you state, "I am also proposing a change to DMCS 421.45 to limit the destination entry discounts to mail entered at the destination facility."

- (a) Please describe in detail how this change will benefit the Postal Service.
- (b) What percentage of Periodicals Outside-County pieces that currently claim the DSCF piece discount is not currently entered at the "destination facility"?
- (c) Has the Postal Service or any of its contractors performed any analyses of the cost difference between pieces claiming the DSCF rate that are not entered at the destination facility, and pieces claiming the DSCF rate that are entered at the destination facility? If so, please provide a copy of each analysis. If not, please describe in as much detail as possible the cost savings that will result from this requirement.
- (d) Has the Postal Service assessed the extent to which mailers of Periodicals-Outside County pieces that claim the DSCF rate, but are not entered at the destination facility, will begin entering these pieces at the destination facility once the change in DMCS 421.45 is implemented?
- (e) If a delivery unit is co-located with a sectional center facility, please describe the conditions under which mail entered at such a facility will be eligible for the DDU rate.
- (f) If an SCF also serves as an ADC, please describe the conditions under which mail entered at such a facility will be eligible for the DSCF rate.

RESPONSE

- (a) Redirected to witness Mayes, USPS-T-23.
- (b) The Postal Service does not have an estimate of the percentage of Periodicals Outside-County pieces that currently claim the DSCF piece discount but are not currently entered at the "destination facility."
- (c) Redirected to witness Mayes, USPS-T-23.
- (d) No.
- (e) The destination delivery unit (DDU) rate applies to eligible pieces entered at the facility (including a co-located delivery unit and sectional center facility) where the carrier cases mail for the

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carrier route serving the delivery address on the mailpiece.

- (f) If an SCF also serves as an ADC, copies not eligible for In-County rates qualify for DSCF rates if the copies are addressed for delivery within the SCF facility service center area and are deposited at the facility.

If the SCF and ADC facilities are separate facilities, copies not eligible for In-County rates qualify for DSCF rates if the copies are addressed for delivery within the SCF facility service center area, are deposited at the DSCF and are placed in other than an ADC, AADC, MXD ADC or MXD AADC sack or tray, or on an ADC or MXD ADC pallet.

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MPA/USPS-T-34-9. Please list all changes in mail preparation requirements for Periodicals and eligibility requirements for Periodicals discounts that have been implemented since the beginning of FY 2000 and those that are expected to be implemented before the end of FY 2003. Please also provide a summary of each change and its actual or planned implementation date. If there is no planned implementation date for a particular change, please provide your best estimate of the implementation date.

RESPONSE

Listed below are the amendments and revisions to Periodicals mail preparation requirements and eligibility requirements for Periodicals discounts since FY2000.

- Effective December 2, 1999, DMM E211.10.3 was amended to allow publishers of bound and unbound publications the option of printing the Periodicals identification statement on the table of contents page. See Postal Bulletin 22011 (11-18-99), page 9.
- Effective February 26, 2000, new DMM G094 was added to incorporate standards governing a two-year experiment allowing material that would otherwise qualify as Standard Mail (A) to "ride along" with Periodicals mail for a flat rate of \$0.10 per piece. See Postal Bulletin 22018 (2-24-00), pages 42-44.
- Effective April 6, 2000, DMM M020.2.1d and M810.2.1 were amended and M011.1.3t was added to allow the option for mailers to use a tic mark in lieu of separator cards for First-Class Mail and Standard Mail (A) (automation) mailings and separator cards or rubber bands in Periodicals and Standard Mail (A) (nonautomation) carrier route mailings prepared in full 5-digit carrier routes trays. Mail in less than full trays must still be banded. See Postal Bulletin 22020 (3-23-00) pages 28-31.
- Effective May 4, 2000, DMM G094.1.3b was amended to reflect that Periodicals mailpieces that include Ride-Along pieces must maintain uniform thickness. See Postal Bulletin 22023 (5-4-00) page 31.
- Effective July 13, 2000, DMM C820.4.3 was amended to remove the requirement that the polywrap product name appear as part of the marking on polywrapped automation flats. The amendment does not remove the

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- requirement that each mailpiece contain a mailpiece identification marking. It removes only the requirement that the polywrap product name appear in the identification. See Postal Bulletin 22026 (6-15-00) page 30.
- Effective at a future date, DMM E230.2.2, M011.1.3, M013.1.1, M033.1.8, M041.5.2, M045.4.1, M050.3.4, M050.4.1, M200.1.3, M200.1.5, and M200.3.1 were amended to include new preparation requirements for Periodicals. See Postal Bulletin 22030 (8-10-00) pages 11-12.
- Effective August 10, 2000, DMM C200.1.4b was amended to eliminate the requirement that the subscription receipts, requests, and order forms permitted as enclosures at Periodicals rates be limited to the host publication or a combination including the host publication and other Periodicals of the host's publication. The standards for permissible enclosures are expanded to allow receipts, requests, orders for a subscription, or printed matter. See Postal Bulletin 2230 (8-10-00) page 13.
- Effective September 7, 2000, DMM E211.10.5e was amended to make optional the publication of a subscription price in the identification statement of a Periodicals publication See Postal Bulletin 22031 (8-24-00) page 5.
- Effective November 2, 2000, DMM M041.3.1f was amended to reduce the maximum pallet height (mail and pallet combined) for Periodicals, Standard Mail (A) and Standard Mail (B) entered at Anchorage and Fairbanks, Alaska, from 77 inches to 72 inches. See Postal Bulletin 22035 (10-19-00) page 10.
- Effective December 15, 2000, DMM E130, E140, E230, E240, E250, E620, E640, E651, E652, L001, L601, L602, L605, M011, M031, M032, M033, M041, M045, M073, M130, M200, M610, M620, M630, M820, and P012 were amended and new M910, M920, M930, and M940 were added. These amendments make required changes to mailing standards for all palletized Periodicals, Standard Mail (A), and Standard Mail (B). The new DMM provisions also add optional traying provisions for flat-size First-Class Mail and add optional sacking and/or palletizing provisions for nonletter-size Periodicals. See Postal Bulletin 22036 (11-2-00) pages 20-52.
- Effective January 1, 2001, Periodicals nonletter-size mailing jobs prepared in sacks that include both an automation flats mailing and a Presorted flats mailing must use the co-sacking methods in DMM M910. See Postal Bulletin 22039 (12-14-00). pages 11-20.
- Effective January 7, 2001, DMM M810.1.3 was amended to correct information about when documentation is required for a mailing of automation letters. See Postal Bulletin 22042 (1-25-01) page 5.

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- Effective January 7, 2001, DMM M013.1.1 was amended to require that all basic carrier route rate Periodicals must be in line-of-travel sequence. See Postal Bulletin 22042 (1-25-01) page 6.
- Effective July 1, 2001, DMM M020 was amended to improve package integrity for Periodicals and Standard Mail. These amendments reorganized M020 by prescribing basic standards for preparing and securing all packages and incorporating standards that pertain individually to packages on pallets, packages in sacks and packages in trays. See Postal Bulletin 22050 (5-17-01) pages 20-23.
- Effective July 1, 2001, DMM R module is amended to reflect new postage rates and fees. See Postal Bulletin 22051 (5-31-01) page 65.
- Effective July 15, 2001, DMM M031.4.8, M045.3.1, M045.3.2, M920.1.5, M920.2.6, M920.2.7, M930.1.5, M930.2.4, M930.2.5, M940.1.5, M940.2.4, and M940.2.5 were amended to require pallets of Periodicals and Standard Mail containing carrier route mail and/or Presorted rate mail to show "NONBARCODED" or "NBC" in the pallet label. See Postal Bulletin 22052 (6-14-01) pages 25-26.
- Effective June 14, 2001, DMM M041.5.3a was amended to remove the minimum weight requirement for pallets of Periodicals, Standard Mail, and Package Services mail dropped at a destination delivery unit by the mailer or mailer's agent. The requirement that mailers had to request permission from each postal facility where they were dropping mail was also eliminated. See Postal Bulletin 22052 (6-14-01) page 28.
- Effective June 14, 2001, DMM C200.1.4b was amended to change the standard for loose enclosures at Periodicals rates. See Postal Bulletin 22052 (6-14-01) page 29.
- Effective June 14, 2001, DMM D230 was amended to allow the Postal Service to cancel additional entry authorization for a Periodicals publication when the additional entry is not used for an entire calendar year. See Postal Bulletin 22052 (6-14-01) page 30.
- Effective June 14, 2001, DMM M031.4 was amended to clarify the required information that must appear on a pallet label. See Postal Bulletin 22053 (6-28-01) page 18.
- Effective September 6, 2001, DMM M050 was amended to change the documentation needed to substantiate compliance with the standards for Periodicals and Standard Mail mailings sequenced in line-of-travel order. See Postal Bulletin 22057 (8-23-01) pages 6-7.

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If the Periodicals changes proposed in this docket are recommended, conforming DMM changes are expected when the changes are implemented. It is also my understanding that two future DMM changes are under consideration.

1. On August 28, 2001, the Postal Service published in the *Federal Register* a notice proposing to add a new preparation option named "co-packaging." Specifically, this notice proposed that mailers be allowed to combine flat-size automation rate pieces and flat-sized Presorted pieces of the same mail class within the same package. The tentative implementation date for this change is Spring 2002.
2. The Postal Service is considering a DMM revision to allow a new optional level of pallet sort for a limited number of SCF service areas. This option would be available for Periodicals, Standard Mail, and Bound Printed Matter flats prepared on pallets. The suggestion for this mail preparation change was originated by the MTAC Presort Optimization Workgroup. The tentative date for this change is Spring 2002.

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MPA/USPS-T34-10. Please refer to OC01.xls, worksheets Calc. of new Cells and Rev. Adj+Ed. Cont.

- (a) Please confirm that the Postal Service estimates that approximately nine percent of TYAR Periodicals Outside-County mail volume will be entered at the DADC. If not confirmed, please explain fully.
- (b) Please confirm that currently only 7.6 percent of Periodicals Outside-County mail is entered at the DADC. If not confirmed, please explain fully.
- (c) Please confirm that the difference between these two figures (approximately 1.4 percent of Periodicals Outside-County volume) represents mail that is (i) currently entered at OSCFs and OAOs in the DADC service territory; and (ii) expected to be entered at the DADC in the Test Year. If not confirmed, please explain fully.
- (d) Please confirm that to qualify as a DADC piece, the mail must be entered at the DADC facility. If not confirmed, please explain fully.
- (e) Please confirm that, ceteris parabis, the transportation and mail processing cost for a piece entered at the DADC facility is lower than the transportation and mail processing cost for a piece entered at an OSCF or OAO in the DADC service territory. If not confirmed, please explain fully.
- (f) Does the Postal Service typically transport Periodicals Outside-County mail that is entered at the OSCF (within the DADC service territory, but not the DSCF service territory) to the DADC? Please explain your answer fully.
- (g) Does the Postal Service typically transport Periodicals Outside-County mail that is entered at an OAO (within the DADC service territory, but not the DSCF service territory) first to the OSCF and then on to the DADC? Please explain your answer fully.

RESPONSE:

- a. Confirmed.
- b. The percent of mail that is entered at the DADC (according to USPS-LR-J-114, witness Loetscher) is 7.6 percent in terms of weight but a slightly higher proportion (8.1 percent) is reported in terms of copies.
- c. Confirmed, with respect to weight.

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d. It is my understanding that the DADC per-piece discount applies to addressed pieces not eligible for Within County rates and addressed for delivery within the facility service area, when the pieces are deposited at the DADC and placed in other than than a MXD ADC or MXD AADC sack or tray or on a MXD ADC pallet. The application of the DADC pound rate would be applicable to eligible copies in a similar fashion.

e. Redirected to witness Mayes, USPS-T-23.

f. Redirected to witness Mayes, USPS-T-23.

g. Redirected to witness Mayes, USPS-T-23.

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MPA/USPS-T34-11. Please refer to OC01.xls, worksheets Calc. of new Cells and Rev. Adj+Ed. Cont. In particular, please refer to the Postal Service's estimate that approximately 9.2 percent of Periodicals Outside-County mail volume will pay the DADC rate in the Test Year.

(a) Please confirm that the 9.2 percent figure is an aggregate figure for the entire Periodicals Outside-County subclass.

(b) What percentage of TYAR Periodicals Nonprofit pieces will qualify for the DADC rate? If you cannot provide an exact estimate, please provide your best guess.

(c) What percentage of TYAR Periodicals Regular pieces will qualify for the DADC rate? If you cannot provide an exact estimate, please provide your best guess.

RESPONSE:

- a. Not confirmed. The number used in the analysis is 9 percent, which is an aggregate figure for the entire Periodicals Outside-County subclass.
- b. I have no way of knowing what percent of Nonprofit Periodicals pieces will qualify for the DADC rate. My best guess of 9 percent is provided in the worksheet NP TYAR $([174,308,135 + 312,081] / 1,940,224,619)$.
- c. I have no way of knowing what percent of Regular Periodicals pieces will qualify for the DADC rate. My best guess of 9 percent is provided in the worksheet RR TYAR $([637,203,293 + 2,733,941] / 7,110,413,720)$.

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MPA/USPS-T34-12. Please refer to OC01.xls, worksheet Calc. of new Cells. In particular, please refer to the Postal Service's estimate that approximately 69 percent of Periodicals Outside-County mail volume is currently palletized.

(a) Please confirm that the 69 percent figure is an aggregate figure for the entire Periodicals Outside-County subclass. If not confirmed, please explain fully.

(b) What percentage of Periodicals Nonprofit pieces is palletized?

(c) What percentage of Periodicals Regular pieces is palletized?

RESPONSE:

a. Confirmed

b. I don't know.

c. I don't know.

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MPA/USPS-T34-13. Please refer to your response to MPA/USPS-T34-1 (c) where you state, "It is difficult to quantify the change in dropship patterns due to the proposed discounts, but discussions with an industry expert leads me to believe that we could see a significant increase in the dropshipped volume in FY 2003."

(a) What types of mailers (in terms of issue size, editorial percentage, and containerization) do you expect will significantly increase their dropshipping to destination area distribution centers (DADCs) in FY 2003? Please explain your response fully.

(b) What types of mailers (in terms of issue size, editorial percentage, and containerization) do you expect will significantly increase their dropshipping to destination sectional center facilities (DSCFs) in FY 2003? Please explain your response fully.

(c) Please confirm that because the Postal Service is not proposing to passthrough the entire transportation and nontransportation cost differentials for editorial pounds, increases in dropshipping (under your proposed rates) will reduce USPS costs more than USPS revenues. If not confirmed, please explain fully.

RESPONSE:

a. Based on preliminary analysis that was performed by the above-mentioned industry expert using rates that are similar to the proposed rates, mailers that would increase their dropshipping to Destinating ADCs would have the following characteristics:

1. Small to medium (50,000 to 300,000 copies)
2. Editorial content ranging from 45 to 60 percent.

Containerization was not analyzed in this exercise, but most of the dropshipped pieces are expected to be on pallets.

b. Based on preliminary analysis that was performed by the above-mentioned industry expert using rates that are similar to the proposed rates, the mailers that

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would increase their dropshipping to Destinating SCFs would have the following characteristics:

1. Medium to large (150,000 to > 1 million copies)
2. Editorial content ranging from 55 to 65 percent.

Containerization was not analyzed in this exercise, but most of the dropshipped pieces are expected to be on pallets.

c. Confirmed only if the estimated cost differentials reflect the actual cost differentials when the rates are in effect.

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MPA/USPS-T34-18. Please refer to USPS-LR-J-114, Table 2, and USPS-LR-J-107, OC01.xls.

(a) Please confirm that your Test Year After Rates (TYAR) billing determinants assume that all mail entered at Origin Associate Offices (OAOs) in the Service Territory of the DSCF will be entered at the DSCF in the Test Year and therefore will receive the DSCF discount. If not confirmed, please explain fully.

(b) Please confirm that your TYAR billing determinants assume that half of the mail entered at OAOs and OSCFs in the Service Territory of the DADC will be entered at the DADC in the Test Year and therefore will receive the DADC discount. If not confirmed please explain fully.

(c) Please confirm that 65 percent of the mail entered at OAOs and OSCFs in DSCF/DADC service territories is sacked.

RESPONSE:

(a) Not confirmed. The estimates for pieces and pounds entered at the destinating SCF is based on base year figures, which in turn are based on FY2000 billing determinants. The estimate for editorial pounds entered at the destinating SCF was calculated in the worksheet 'Calc. of new cells'. This calculation did not impact the total volume of mail entered at the destinating SCF or its proportion. One implied assumption is that in the test year all pieces receiving the DSCF piece discount or the DSCF pound rates would be entered at the destinating SCF and not at any other facility within the area of the SCF.

(b) Confirmed.

(c) Redirected to witness Loetscher USPS-T-41.

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MPA/USPS-T34-19. Please refer to USPS-LR-J-107, OCOI .xls, worksheet Pound Data-Ed. and page 7 of your testimony where you discuss your rationale for passing through only 50 percent of the advertising pound rate differential for editorial pounds.

(a) Please confirm that the revenue leakage from the proposed Destination Delivery Unit (DDU) editorial pound rate "discount" relative to Zones 1 and 2 is approximately \$600,000 or 0.024 percent of TYAR Periodicals Outside-County revenue. If not confirmed, please explain fully.

(b) Please confirm that the revenue leakage from passing through 100 percent of the DDU-Zones 1 and 2 cost avoidance in the form of a lower DDU pound rate would increase this revenue leakage by approximately \$600,000 or 0.024 percent of TYAR Periodicals Outside-County revenue. If not confirmed, please explain fully.

(c) Please confirm that your rationale for only passing through 50 percent of the advertising pound rate differential for editorial pounds was to mitigate the rate increase for mailers who do not dropship. If not confirmed, please explain fully.

(d) Taking into account your responses to subparts (a) and (b) of this interrogatory, please confirm that increasing the passthrough for the DDU editorial pound rate to 100 percent will have a minimal, if any, impact on mailers who do not dropship. If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Partly confirmed. Maintaining the balance between economic efficiency (dropship incentives for editorial pounds) and dissemination of information (maintaining a reasonable unzoned editorial pound rate) is one of the goals of this proposal. See also the response to part (d).

(d) Confirmed. In order to maintain consistency between the three dropship locations, our proposal used a 50 percent pass-through in all the cases.

Because of the low volume being dropshipped at the DDU the impact of

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changing the passthrough for DDU does not have a significant impact on mailers that do not dropship. If passthroughs were changed for other locations such as DSCF and DADC the impact on the mailer who do not dropship is not expected to be minimal.

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MPA/USPS-T34-20. Please refer to USPS-LR-J-107, OC01.xls, worksheet Pound Data-Adv and set cells D47-D49 of this worksheet equal to 0.

(a) Please confirm that the average cost per pound for transporting periodicals from the destination area distribution center (DADC) to the destination delivery unit (DDU) can be calculated by subtracting the unit transportation cost per pound figure in cell e56 of this worksheet from the unit transportation cost per pound figure in cell e58 of this worksheet. If not confirmed, please explain fully.

(b) Please confirm that the average cost per pound for transporting periodicals from the DADC to the destination sectional center facility (DSCF) can be calculated by subtracting the unit transportation cost per pound figure in cell e57 of this worksheet from the unit transportation cost per pound figure in cell e58 of this worksheet. If not confirmed, please explain fully.

(c) Please confirm that the average cost per pound for transporting periodicals from the DSCF to the DDU can be calculated by subtracting the unit transportation cost per pound figure in cell e56 of this worksheet from the unit transportation cost per pound figure in cell e57 of this worksheet. If not confirmed, please explain fully.

(d) Please confirm that the unit cost per pound for transporting periodicals from an Origin Associate Office (OAO) that is not in the DSCF service territory to the DADC is likely to be similar to the unit cost per pound for transporting periodicals from the DADC to the DDU. If not confirmed, please explain fully.

(e) Please confirm that the unit cost per pound for transporting periodicals from an Origin Sectional Center Facility (OSCF) to the DADC is likely to be similar to the unit cost per pound for transporting periodicals from the DADC to the DSCF. If not confirmed, please explain fully.

(f) Please confirm that the unit cost per pound for transporting periodicals from an OAO within the DSCF service territory to the DSCF is likely to be similar to the unit cost per pound for transporting periodicals from the DSCF to the DDU. If not confirmed, please explain fully.

RESPONSE:

(a-c) I will start with the explanation of how transportation costs are allocated in the current proposal. This allocation is not significantly different from past Commission practice except in one respect. In this Docket the allocation is being done solely for advertising pounds and an assumed allocation of transportation cost to these pounds is used.

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Transportation costs have been separated into Distance-Related Costs (DRC) and Nondistance-Related Costs (NDRC). Per unit NDRC is a constant and shared equally by all zones except DDU. DRC varies by zones, based on pound-mile proportions. DRC is allocated to DADC through Zone 8. In summary, transportation costs (DRC + NDRC) have been allocated as follows:

1. DDU rate has no transportation cost allocated to it.
2. DSCF rate only pays NDRC.
3. DADC through Zone 8 rates pay both the allocated DRC and the constant NDRC.

Given the rate design assumptions, i.e. allocation of transportation costs to advertising, the allocation factor for the distance-related portion, and the assumptions regarding which rate cells pay what type of transportation costs, the difference between cells e58 and e56 could be an estimate of the average cost per pound for transporting periodicals from the destination area distribution center (DADC) to the destination delivery unit (DDU). Changes in any of these assumptions could change this estimate.

In the same vein the difference between cells e58 and e57 could be an estimate of average cost per pound for transporting periodicals from the DADC to the destination sectional center facility (DSCF). Once again the same caveats apply.

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The difference between cells e57 and e56 could be an estimate of average cost per pound for transporting periodicals from the DSCF to DDU, but once again, as discussed above, changes in rate design assumptions could change this estimate.

(d-f) *Redirected to the Postal Service.*

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MPA/USPS-T34-21. Please refer to USPS-LR-I-107, OC01.xls, worksheet "Calc. of New Cells." Please confirm that your rate design assumes that 47 percent of Zones 1 and 2 pounds will be entered at the destination area distribution center (DADC) in the Test Year. If not confirmed, please explain fully.

RESPONSE:

Not confirmed. My numbers turn out to be a little different. Based on the worksheet referred in your question "Calc. of New Cells", the estimated sum of total Zones 1 & 2 pound is 826,782,072 (advertising is based on actual billing determinants and nonadvertising is estimated) while the estimate for DADC (based on 9 percent of total weight) is 399,315,141. The ratio is approximately 48.3 percent.

If test year data are used (from the Test Year BR worksheet), DADC advertising pounds would be 47.53 percent of the total Zones 1 & 2 advertising pounds.

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MPA/USPS-T34-22. Assume that a mailer enters an area distribution center (ADC) container at a destination ADC (DADC). Assume further that 80 percent of the mail in this container destinates in the area for which this ADC is also the destination sectional center facility (DSCF).

(a) Please confirm that the cost for the Postal Service to transport this 80 percent of the mail to the DSCF is zero and, therefore, the transportation cost for this mail is similar to that for DSCF mail. If not confirmed, please explain your response fully.

(b) Please confirm that all of the mail in the container described above will pay the DADC pound rate if the Postal Service-proposed rates go into effect. If not confirmed, please explain your response fully.

(c) All else being equal, please confirm that, for the reason discussed in subparts (a) and (b) of this interrogatory, among others, non-DADC Zones 1 and 2 periodicals have higher transportation costs than DADC Zones 1 and 2 periodicals. If not confirmed, please explain your response fully.

(d) All else being equal, please confirm that, for the reason discussed in subparts (a) and (b) of this interrogatory, non-DADC Zones 1 and 2 periodicals have higher transportation costs than Zones 1 and 2 periodicals as a whole. If not confirmed, please explain your response fully.

RESPONSE:

(a) Not confirmed. Transportation cost could be zero in most instances, but ADC and SCF mail can be worked in separate buildings which would then result in additional transportation. ADC and SCF mail may be worked in separate areas even if in the same facility, so there would be some nontransportation cost for transferring this mail to the SCF work area. In multi-level facilities where availability of elevators could cause a bottleneck, this mail could actually be trucked to a different level of the same facility. (For example, in southern California, all ADC pallets go to

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the BMC to be worked, while all SCF pallets go to the corresponding facility.)

- (b) Not confirmed. The final determination will be made as part of the implementation process. However, it is difficult at this time to determine under what circumstances a pallet with mail for more than one SCF would receive the SCF rate given that some additional cost would be involved in working through the entire pallet in order to separate the 20 percent non-DSCF mail.
- (c) I am not able to confirm your statement. In the above case the transportation cost may be zero as my response to subpart (a) states, but it is possible that non-DADC Zones 1 & 2 mail could, in some cases, have lower transportation cost than DADC Zones 1 & 2 mail.
- (d) I am unable to confirm your statement, which is generally true, but maybe not in all cases. Please see my response to subpart (c) above.

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MPA/USPS-T34-23. Please refer to witness Loetscher's response to MPA/USPS-T41-2, and worksheet "MPA2" in resp-mpa-usps-t41-2-6.xls, which was provided in response to MPA/USPS-T41-2. Please refer further to Table 1 below, which was produced based upon the data in worksheet "MPA 2."

Table 1. Percent of Nonprofit Publications (For Which Entry Point Data Are Available) That Entered Fifty Percent or More of Copies at the Destination Delivery Unit (DDU), Destination Sectional Center Facility (DSCF), or in Zones 1 and 2

Issue Size	Percent DDU, DSCF, or Zones 1 and 2
0-1,000	35.5 percent
1,000-2,000	36.7
2,000-5,000	35.0
5,000-10,000	29.4
10,000-25,000	34.0
25,000-50,000	30.4
50,000-75,000	31.0
75,000-100,000	29.3
100,000-200,000	33.3
200,000-500,000	46.7
500,000-1,000,000	14.3
1 Million+	23.1

(a) Please confirm that Table 1 accurately summarizes the nonprofit data in resp-mpa-usps-T41-2-6.xls, worksheet "MPA 2." If not confirmed, please provide the correct figures.

(b) Please confirm that "local" publications-those that are produced and distributed within the same geographic area - either currently qualify for destination entry rates or that a large portion of such publications could qualify for destination entry rates without having to be hauled long distances. If not confirmed, please explain your response fully.

(c) Please confirm that a portion of small-circulation publications (defined as less than 50,000 pieces per issue) are "local" publications.

(d) Please confirm that the data shown in Table 1 above suggest that a larger portion of small-circulation nonprofit publications than of large-circulation nonprofit publications are "local" publications. Please explain your response fully.

(e) Please confirm that many small-circulation "local" publications would benefit from the editorial pound rates that you are proposing (as compared to a flat editorial pound rate). If not confirmed, please explain your response fully.

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(f) Please confirm that many small-circulation "local" nonprofit publications would benefit from the editorial pound rates you are proposing (as compared to a flat editorial pound rate). If not confirmed, please explain your response fully.

RESPONSE:

(a-d). Redirected to witness Loetscher (USPS-T-41).

e. Confirmed.

f. Confirmed, especially in light of the fact that Nonprofit publications on average have higher editorial content than other Outside County publications.

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MPA/USPS-T34-30. Please refer to MPA/USPS-T34-29, above. Assume that a 6-piece sack containing 3digit automation pieces is entered at an origin sectional center facility (OSCF) in Zone 4 and is crossdocked at the OSCF, the origin bulk mail center BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Further, please assume that each piece in the sack weighs 0.471 pounds and has an advertising percentage of 43.5.

(a) Please confirm that the Postal Service incurs a cost per piece of \$0.523 (sum of \$0.116, \$0.131, \$0.131, and \$0.145) for crossdocking, unloading, and moving this sack. If you do not confirm, please explain and provide the correct figure.

(b) Please confirm that, under your proposed Periodicals Outside-County rates, the postage that each of these pieces would pay is \$0.356. If you do not confirm, please provide the correct figure.

(c) Please confirm that the postage of \$0.356 is 68 percent of the cost per piece of \$0.523 for crossdocking and handling the sack. If you do not confirm, please provide the correct figure.

RESPONSE:

(a) Redirected to witnesses Mayes and Schenk (USPS-T-23 and USPS-T-43).

(b) Confirmed.

(c) Not confirmed. Witness Mayes confirmed the first three components of the costs that add up to \$0.523 in your question. Witness Schenk has provided an estimate of \$0.025 compared to your estimate for the fourth component of \$0.145. The postage of \$0.356 is 88 percent of the new total of \$0.403.

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MPA/USPS-T34-31. Please refer to MPA/USPS-T34-29, above. Assume that a 12-piece sack containing 3-digit automation pieces is entered at an origin sectional center facility (SCF) in Zone 4 and is crossdocked at the origin SCF, the origin bulk mail center (BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Further, please assume that each piece in the sack weighs 0.471 pounds and has an advertising percent of 43.5.

(a) Please confirm that the Postal Service incurs a cost per piece of \$0.261 (sum of \$0.058, \$0.065, \$0.065, and \$0.073) for crossdocking, unloading, and moving this sack. If you do not confirm, please explain and provide the correct figure.

(b) Please confirm that, under your proposed Periodicals Outside-County rates, the postage that each of these pieces would pay is \$0.356. If you do not confirm, please provide the correct figure.

RESPONSE:

(a) Redirected to witnesses Mayes and Schenk (USPS-T-23 and USPS-T-43).

(b) Confirmed.

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MPA/USPS-T34-34. Please refer to your response to Presiding Officers Information Request Number 3, which shows pound rates under the "Old Method." Assume that a Periodicals Outside-County piece weighs 0.471 pounds and has an advertising percent of 43.5.

(a) Please confirm that, under your proposed Zone 4 rates, the revenue per piece from the advertising pounds is \$0.065 and the revenue per piece from the nonadvertising pounds is \$ 0.054 and that their sum is \$0.119. If you do not confirm, please provide the correct figures.

(b) Please confirm that, under your proposed destination sectional center facility (DSCF) rates, the revenue per piece from the advertising pounds is \$ 0.042, the revenue per piece from the nonadvertising pounds is \$ 0.048, the worksharing DSCF entry revenue per piece is -\$0.008 and that their sum is \$0.082. If you do not confirm, please provide the correct figures.

(c) Please confirm that, under your proposed rates, the difference in postage between entering this piece in Zone 4 and entering it at the DSCF is \$0.037 (\$0.119 less \$0.082). If you do not confirm, please provide the correct figures.

(d) All else being equal, please confirm that, using the transportation and nontransportation cost avoidances underlying the "Old Method" pound rates and the DSCF piece discount, it costs the Postal Service \$0.055 more for this piece if entered in Zone 4 than if entered at the DSCF. If you do not confirm, please explain and provide the correct figure.

(e) Please confirm that, even using the "Old Method" cost avoidance estimates, the effective passthrough of the dropship-related cost difference between Zone 4 and DSCF for this piece is \$0.037/\$0.055 or 67.6 percent. If you do not confirm, please provide the correct figure.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

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TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3

POIR3-1.

The Revenue Forgone Reform Act provides for Science of Agriculture publications to pay advertising pound rates equal to 75% of the corresponding rates paid by regular-rate publications in certain zones. Proposed rates for Science of Agriculture editorial matter are 75% of those for regular rate. Please provide a discussion of the reasoning behind the proposed reduction of the editorial rate for Science of Agriculture publications relative to that of regular rate.

RESPONSE:

There is no statutory requirement for the Science of Agriculture editorial pound rates to be equal to 75 percent of the Outside County editorial pound rates. Instead, the 75 percent figure is applied for rate design purposes. The proposal for Periodicals in this Docket provides incentives for both editorial and advertising pounds to be dropshipped closer to destination. A similar incentive is being provided to mailers of Science of Agriculture Periodicals. An additional rate design goal is to prevent rate anomalies in which the editorial pound rates would be higher than the advertising pound rates.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3**

POIR3-2.

In USPS-LR-J-107, the Pound Data_Adv worksheet in the file OC01.xls contains an average haul of 63 miles (cell e25, formula $50 * 189/150$). Please provide the source of the 50-mile figure used in this calculation. The zones 1 & 2 average haul is 189 miles. Please describe the analysis done to conclude that the average haul for periodicals remaining in zones 1 and 2 after removing the destination ADC periodicals should not be altered.

RESPONSE:

The source of the 50-mile figure is DMM G030.2.2, which defines the Postal Zones. The 50-mile figure is for Zone 1, while Zone 2 is defined to be 150 miles. The 50-mile number is inflated by the ratio of 189 miles to 150 miles to correspond with the average haul numbers used in the calculation of pound miles for the purpose of allocating distance-related transportation cost.

No analysis was conducted concerning whether to change the average haul for Zones 1 & 2.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3**

POIR3-3.

The development of the pound rates for Outside Periodicals in the past has reflected, among other things, (1) a policy decision that the flat pound rate for editorial matter should be 75 percent of the zones 1 and 2 pound rate for advertising matter; and (2) a rate design procedure that allocates all distance-related transportation costs on all pounds in such a way that the differences in the zone rates for advertising are best-estimates of the differences in the zone transportation costs. Recently, this has been modified slightly to include non-transportation costs in the differences in rates going from zones 1 and 2 down to the DDU level. In this case, as explained by witness Taufique (USPS-T-34), this procedure has been replaced by a procedure that (a) controls the proportion of the pound revenue that is from advertising to be equal to the proportion that occurred in the base year, and (b) develops the zone differences on a rate design procedure that allocates 50 percent (in this case) of the distance-related transportation costs on just advertising pounds in such a way that the differences in the zone rates for advertising do *not* bear a well-defined relation to the differences in the zone transportation costs. Witness Taufique's explanation for this change is, basically, that it is needed to accommodate proposed structural changes without being unfair to the rates for editorial matter. In order that the record be complete on the justification and the need for these changes in procedure, please:

- a) Discuss the implications of a procedure that ties the proportion of the pound revenue from advertising rates to the proportion actually obtained in the base year.
- b) Discuss the bases for selecting the 50-percent figure.
- c) Provide an explanation of the meaning of the differences in the zone rates in the new procedure.
- d) Supply a set of rates implied by using the old procedure.
- e) Explain whether any other avenues to accommodate the proposed structural changes were considered.

RESPONSE:

A major change proposed by the Postal Service in this Docket is to provide dropshipment incentives for total pounds rather than just advertising pounds. We believe that correct signals in this regard would benefit all mailers as well as the Postal Service. (See USPS-T-34, pages 5-6.)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3
Question 3, Page 2 of 3

a. As stated in my testimony, I wanted to maintain a balance between the economic efficiency of applying dropshipment incentives to all pounds, and the social objective of dissemination of information. The allocation of revenue to advertising and editorial pounds based on base year revenue proportions ensures that the changes in rate design would not impact the share of revenue burden borne by the editorial pounds. Editorial pound revenue in the base year is based on two factors: the proportion of editorial pounds in FY2000 and the setting of the editorial pound rate at 75 percent of the Zones 1 & 2 rate. Since the editorial and advertising pound proportions are held constant in the test year, the method proposed by the Postal Service ensures that regardless of rate design changes, editorial pounds would not be burdened by more than their historical share.

b-c. The allocation of transportation cost to the estimation of zoned advertising pound rates becomes a crucial determinant of the difference between rates for farther and nearer zones. One option was to allocate the transportation cost between advertising and editorial pounds on the same basis as the allocation of overall revenue between advertising and editorial pounds – approximately 53 percent to advertising and 47 percent to editorial. This allocation would have caused a sharper increase in the farther zones compared to the proposed rates. The 50 percent allocation was used to mitigate the impact on advertising pound rates for farther zones. Another option that might improve the relationship

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3
Question 3, Page 3 of 3**

between zone transportation costs and zoned advertising pound rates would be to allocate the transportation cost based on the proportion of advertising pounds.

d. The attached sheet provides pound rates based on the old methodology.

e. Other avenues to accommodate the proposed structural changes were considered but not adopted due to various constraints, such as the need to maintain a reasonable unzoned editorial pound rate.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Taufique?

3 (No response.)

4 CHAIRMAN OMAS: There being none, this brings us
5 to oral cross-examination. Two parties have requested oral
6 cross-examination, American Business Media and the McGraw-
7 Hill Companies, Inc., and the Coalition of Religious Press
8 Associations and the National Federation of Independent
9 Publications.

10 Is there any additional party who would like to
11 cross-examine Witness Taufique?

12 Mr. Straus? Would you identify yourself, please?

13 MR. STRAUS: Yes. I'm David Straus, counsel for
14 American Business Media.

15 I don't believe we filed for oral cross-
16 examination of Mr. Taufique. If we did, it was an accident.
17 I withdraw it in the spirit of Mr. Myers' previous comment.

18 CHAIRMAN OMAS: Thank you, Mr. Straus. We
19 appreciate that.

20 All right. Again, is there any other party that
21 wants to cross-examine Mr. Straus? I mean Mr. Taufique.
22 I'm confused. I guess I'm all exited about the fact Mr.
23 Straus withdrew his oral cross.

24 MR. BURGE: Excuse me. Mr. Chairman.

25 CHAIRMAN OMAS: Yes?

1 MR. BURGE: I'm Tim Burge on behalf of the McGraw-
2 Hill Company.

3 As in the case of ABM, I do not believe that we
4 filed a notice of intent to conduct oral cross-examination
5 of Witness Taufique. We did designate some written cross-
6 examination, but not oral cross-examination.

7 CHAIRMAN OMAS: All right. Thank you.

8 Well, that brings us to the Coalition of Religious
9 Press Associations and the National Federation of
10 Independent Publications. Mr. Feldman?

11 MR. FELDMAN: Thank you, Chairman Omas and members
12 of the Commission.

13 CROSS-EXAMINATION

14 BY MR. FELDMAN:

15 Q Mr. Taufique, if you would kindly turn to your
16 response to ABM/McGraw-Hill-T-34-3, please? If you would
17 refer to the second paragraph of your response?

18 The first sentence of that reads, "The presumption
19 is that editorial matter has educational, cultural,
20 scientific or informational value and that the broad
21 dissemination of such matter is in the national interest."

22 Mr. Taufique, in light of that response, as well
23 as your response to the rest of the interrogatory, would you
24 agree that the rates for periodicals that are contained in
25 the proposed stipulation and agreement that has been

1 circulated among all of us likewise recognizes the value of
2 editorial content as you describe it in T-34-3?

3 A I'm familiar with the rates that are in the
4 stipulation and agreement, and it appears that those rates
5 would achieve the objectives that I've talked about in this
6 response.

7 Q Thank you very much. Now if you would kindly turn
8 also to ABM/McGraw-Hill-T-34-48, Part C? Excuse me. To
9 Part A, I believe.

10 You there talk about a delicate balance between
11 economic efficiency and public policy. Would you also agree
12 that rates as contained in the proposed stipulation and
13 agreement for publication mail, periodical mail, will
14 likewise maintain a balance between economic efficiency and
15 public policy?

16 A Once again, I'm familiar with the rates that are
17 in the proposed stipulation and agreement, and it appears
18 that those rates would provide the balance between public
19 policy and economic efficiency.

20 Q Thank you. In the final portion of Interrogatory
21 48 there is Part C, and reviewing the statement in Part C
22 likewise about a balance between economic factors and
23 factors like editorial content would you again agree that
24 your response to 48-C is consistent with the rates proposed
25 in the stipulation and agreement for periodical mail?

1 A You are referring to 48-C, right?

2 Q Yes.

3 A Once again, yes, that is true. I'm familiar with
4 the rates in the proposed stipulation and agreement, and I
5 believe that would meet the objective that I've talked about
6 in 48-C.

7 Q Just to clarify, the objective is, as you stated
8 in your response, the very last phrase in your response to
9 48-C, you refer to the dual objective of public policy and
10 economic efficiency, and that's the objective which you've
11 sought, correct?

12 A It appears that the rates that are in the proposed
13 stipulation and agreement would meet those two goals.

14 MR. FELDMAN: I appreciate your responses. Thank
15 you very much.

16 That concludes my cross-examination, Mr. Chairman.

17 CHAIRMAN OMAS: Thank you, Mr. Feldman.

18 Is there any follow up cross-examination?

19 (No response.)

20 CHAIRMAN OMAS: Are there any questions from the
21 bench?

22 (No response.)

23 CHAIRMAN OMAS: Mr. Rubin, would you like some
24 time with your witness to review whether you need --

25 MR. RUBIN: No, thank you. There will be no need

1 for redirect.

2 CHAIRMAN OMAS: Mr. Taufique, that completes your
3 testimony here today. We appreciate your appearance and
4 your contribution to our record. Thank you. You are now
5 excused.

6 THE WITNESS: Thank you.

7 (Witness excused.)

8 CHAIRMAN OMAS: Mr. Tidwell?

9 MR. TIDWELL: Good morning, Mr. Chairman.

10 CHAIRMAN OMAS: Good morning.

11 MR. TIDWELL: The Postal Service calls its next
12 witness to the stand, Michael Miller.

13 Whereupon,

14 MICHAEL MILLER

15 having been duly sworn, was called as a witness
16 and was examined and testified as follows:

17 CHAIRMAN OMAS: Thank you. Please be seated.

18 (The document referred to was
19 marked for identification as
20 Exhibit No. USPS-T-22.)

21 DIRECT EXAMINATION

22 BY MR. TIDWELL:

23 Q Mr. Miller, I have placed before you two copies of
24 a document that is entitled Direct Testimony of Michael W.
25 Miller on behalf of the United States Postal Service that

Heritage Reporting Corporation
(202) 628-4888

1 has been designated for purposes of this proceeding as
2 USPS-T-22. Was that document prepared by you? Have you had
3 a chance to examine the document?

4 A Yes, I have.

5 Q Was that document prepared by you or under your
6 supervision?

7 A Yes, it was.

8 Q If you were to provide the contents of that
9 document as your oral testimony today, would it be the same?

10 A Yes, it would.

11 Q That document also refers to two Category II
12 library references, USPS-J-60 and J-62. Were those two
13 documents prepared by you under your supervision?

14 A Yes, they were.

15 Q And you are prepared to sponsor those library
16 references as part of your testimony today?

17 A Yes, I am.

18 MR. TIDWELL: With that, Mr. Chairman, the Postal
19 Service would move into evidence the direct testimony of Mr.
20 Miller and the associated library references we have just
21 referred to.

22 CHAIRMAN OMAS: Is there any objection?

23 (No response.)

24 CHAIRMAN OMAS: Hearing none, I will direct
25 counsel to provide the reporter with two copies of the

1 corrected direct testimony of Michael W. Miller. That
2 testimony is received into evidence. However, as is our
3 practice, it will not be transcribed.

4 (The document referred to,
5 previously identified as
6 Exhibit No. USPS-T-22, was
7 received in evidence.)

8 CHAIRMAN OMAS: Mr. Miller, have you had an
9 opportunity to examine the packet of designated written
10 cross-examination that was made available to you in the
11 hearing room this morning?

12 THE WITNESS: Yes, I have.

13 CHAIRMAN OMAS: Is there any questions contained
14 in that packet that if they were posed to you orally today
15 would your answers be the same as those you previously
16 provided in writing?

17 THE WITNESS: Yes, they would.

18 CHAIRMAN OMAS: Are there any corrections or
19 additions you would like to make to those answers?

20 THE WITNESS: No.

21 CHAIRMAN OMAS: Counsel, would you please provide
22 two copies of the corrected designated written cross-
23 examination of Witness Miller to the reporter? That
24 material is received into evidence and is to be transcribed
25 into the record.

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-22 and was
4 received in evidence.)
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL W. MILLER
(USPS-T-22)

Party

Interrogatories

American Bankers Association and
National Association of Presort
Mailers

ABA&NAPM/USPS-T22-2-3, 5-10, 12a-b, 15-16,
20, 22-23, 29-31

ABA&NAPM/USPS-T29-7a-c, 27 redirected to T22
MMA/USPS-T22-7a-b, 17a-b

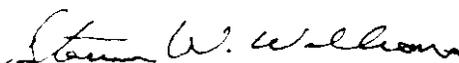
Newspaper Association of America

MMA/USPS-T22-19, 21a-c, 28a-b, 64

Office of the Consumer Advocate

ABA&NAPM/USPS-T22-6, 15-16, 31
ABA&NAPM/USPS-T29-7a-c redirected to T22
GCA/USPS-T29-16 redirected to T22
KE/USPS-T22-1-4, 22, 25, 29
OCA/USPS-T22-1-5

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL W. MILLER (T-22)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
ABA&NAPM/USPS-T22-2	ABA&NAPM
ABA&NAPM/USPS-T22-3	ABA&NAPM
ABA&NAPM/USPS-T22-5	ABA&NAPM
ABA&NAPM/USPS-T22-6	ABA&NAPM, OCA
ABA&NAPM/USPS-T22-7	ABA&NAPM
ABA&NAPM/USPS-T22-8	ABA&NAPM
ABA&NAPM/USPS-T22-9	ABA&NAPM
ABA&NAPM/USPS-T22-10	ABA&NAPM
ABA&NAPM/USPS-T22-12a	ABA&NAPM
ABA&NAPM/USPS-T22-12b	ABA&NAPM
ABA&NAPM/USPS-T22-15	ABA&NAPM, OCA
ABA&NAPM/USPS-T22-16	ABA&NAPM, OCA
ABA&NAPM/USPS-T22-20	ABA&NAPM
ABA&NAPM/USPS-T22-22	ABA&NAPM
ABA&NAPM/USPS-T22-23	ABA&NAPM
ABA&NAPM/USPS-T22-29	ABA&NAPM
ABA&NAPM/USPS-T22-30	ABA&NAPM
ABA&NAPM/USPS-T22-31	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-7a redirected to T22	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-7b redirected to T22	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-7c redirected to T22	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-27 redirected to T22	ABA&NAPM
GCA/USPS-T29-16 redirected to T22	OCA
KE/USPS-T22-1	OCA
KE/USPS-T22-2	OCA
KE/USPS-T22-3	OCA
KE/USPS-T22-4	OCA
KE/USPS-T22-22	OCA
KE/USPS-T22-25	OCA
KE/USPS-T22-29	OCA

MMA/USPS-T22-7a	ABA&NAPM
MMA/USPS-T22-7b	ABA&NAPM
MMA/USPS-T22-17a	ABA&NAPM
MMA/USPS-T22-17b	ABA&NAPM
MMA/USPS-T22-19	NAA
MMA/USPS-T22-21a	NAA
MMA/USPS-T22-21b	NAA
MMA/USPS-T22-21c	NAA
MMA/USPS-T22-28a	NAA
MMA/USPS-T22-28b	NAA
MMA/USPS-T22-64	NAA
OCA/USPS-T22-1	OCA
OCA/USPS-T22-2	OCA
OCA/USPS-T22-3	OCA
OCA/USPS-T22-4	OCA
OCA/USPS-T22-5	OCA

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-2 At page 9, line 30 through page 10, line 4 of your Direct Testimony, you state that the cost pools "1suppf1" and "1suppf4" related to tasks performed in Function 1 (the accounting definition of "mail processing") and the identical tasks performed in Function 4 (the accounting definition of "customer service") respectively, and that the tasks included in these cost pools are for union activities, quality of working life programs, travel time for training or other reasons, and clerical administrative activities, and that such tasks "are not affected by whether an individual mail piece is presorted and/or prebarcoded." How then do you explain why the costs for these cost pools are .4428 cents per piece for metered letters and only .1011 cents for automated letters?

RESPONSE:

The costs for these cost pools are actually 0.4428 and 0.1024 cents per piece for Bulk Metered Mail (BMM) letters and automation presort letters, respectively. It is my understanding that these cost pools are not tally-based cost pools. The specific value for these cost pools is a function of the attribution methodology. The cost pool classifications I use are task based. The MODS operation numbers mapped to these cost pools do not represent tasks that would be avoided were mailers to presort and/or prebarcode their mailings.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-3 Please confirm that had you used delivery unit costs of First-Class Mail Nonautomation Presort Letters as the proxy for delivery unit costs of the benchmark, Metered letters, as both you and the Commission did in R2000-1, the Worksharing Related Savings shown in column 5 of page 1 of USPS LR-J-60 ("First-Class Mail Presort Letters Summary"), revised 11-05-01, would have been 1.867 cents higher for each of the FCLM automation rate categories shown on such page 1, resulting in the following "Worksharing Related Savings": 6.94 cents for Automation Mixed AADC Letters; 7.815 cents for Automation AADC Letters; 8.131 cents for Automation Three-Digit Presort Letters; and 9.268 cents for Automation Five-Digit Presort Letters. If you cannot confirm, please explain why.

RESPONSE:

The benchmark for the First-Class automation presort rate categories is not metered letters, but is Bulk Metered Mail (BMM) letters. However, the IOCS system cannot be used to isolate BMM letters mail processing unit costs. Consequently, the costs for all metered letters are used as a proxy.

In Docket No. R2000-1, I used the aggregate nonautomation presort letters delivery unit cost as the proxy for Bulk Metered Mail (BMM) letters. Witness Clifton criticized this cost methodology (please see Docket No. R2000-1, Tr.26/12421 at 1-3). The Commission, however, subsequently relied upon this methodology.

In this docket, the nonautomation presort letters costs are de-averaged based on mail piece machinability and presort level. Consequently, more detailed delivery unit cost estimates are available. Given that BMM letters are machinable letters, I use the nonautomation machinable mixed AADC presort letters delivery unit cost estimate as the proxy for BMM letters in this docket. Please see the response to MMA/USPS-T22-19(B) for further discussion as to why this methodology is appropriate.

The aggregate nonautomation presort letters delivery unit cost found on page 1 of USPS LR-J-60 is 5.942 cents (please see the revisions filed on 11/15/01). This figure is 1.859 cents higher than the delivery unit costs for BMM letters. Were this figure to be adopted as an alternative, the worksharing related savings estimates for the automation presort categories would inflate to the following figures:

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

RESPONSE TO ABA&NAPM/USPS-T22-3 (CONTINUED)

Automation Mixed AADC	6.950 cents
Automation AADC	7.825 cents
Automation 3-Digit	8.142 cents
Automation 5-Digit	9.278 cents

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-5 Are all First-Class Metered Letters machinable? Are any First-Class Metered Letters handwritten?

RESPONSE:

No. Yes.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-6 See Library Reference USPS LR-J-60, page 1 ("First-Class Mail Presort Letters Summary") revised 11-05-01. At column 3 thereof you set forth "Delivery Worksharing Related Unit Costs" for various types of Nonautomated Nonmachinable First-Class letters and Nonautomated Machinable First-Class letters. Explain why the Delivery Worksharing Related Unit Costs of Nonautomated Nonmachinable First-Class letters is the same for ADC and Mixed AADC as it is for 3-Digit and 5-Digit (i.e., 8.408 cents), while such unit costs for Nonautomated Machinable First-Class Letters differ between Mixed AADC and AADC (4.066 cents) and 3-Digit and 5-Digit (3.937 cents).

RESPONSE:

Please see USPS LR-J-117 for the delivery unit costs developed by witness Schenk. Witness Schenk uses the Delivery Point Sequencing (DPS) percentages from my cost models to de-average the presort letters delivery unit costs.

Nonmachinable mail pieces will all have to be cased by a carrier. There will be no delivery savings related to DPS. Consequently, the delivery unit costs are the same for all nonautomation nonmachinable presort letters categories.

Nonautomation machinable mixed AADC and AADC presort letters would first be processed on the outgoing Input Sub System (ISS). These mail pieces follow the same processing path in the cost models and therefore have the same DPS percentage. Consequently, the delivery unit costs are the same.

Nonautomation machinable 3-digit and 5-digit presort letters would first be processed on the incoming ISS. These mail pieces follow the same processing path in the cost models and therefore have the same DPS percentage. Consequently, the delivery unit costs are the same.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-7 Is part of the volume of First-Class Bulk Metered Mail which you claim exists, Bulk Metered Mail delivered to the Postal Service from other Postal Service sites? If so, can you quantify what percentage of the volume of First-Class Bulk Metered Mail letters which you claim exists comes from mailers and presort bureaus on the one hand and from other Postal Service sites on the other hand? Did you make any effort in the preparation of your testimony to quantify these percentages?

RESPONSE:

No. Bulk Metered Mail (BMM) letters as they are defined are trays of machinable metered letters submitted by businesses. Some plants have made arrangements with some Delivery Units where metered packages are unpackaged and trayed at those facilities before they are sent to the plant. By definition, meter mail that has been trayed by postal employees would not be BMM letters. To the best of my knowledge, the extent to which metered packages are unpackaged and trayed at Delivery Units has not been quantified. I made no attempt to determine what percentage of metered packages are processed in this manner as it was not necessary to know this information prior to developing my cost studies.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-8 Major Mailers Association Interrogatory MMA/USPS-T22-5(a) asked you to describe "in detail" the "cases" in which you claimed that increased wage rates do not appear to have offset the impact that Letter Recognition Enhancement Programs have had on Workshare Related Savings. In your November 5, 2001 response to this question, you state that, "the most obvious example is the QBRM Cost Study..." Please answer the above-referenced MMA interrogatory fully by identifying each case of which you are aware that the increased wage rates do not appear to have offset the impact that Letter Recognition Enhancement Programs have had on Worksharing Related Savings.

RESPONSE:

The QBRM savings test year (2003) estimate found in USPS LR-J-60 on page 10 is currently 1.647 cents. This estimate would have been 2.528 cents were Docket No. R2000-1 test year (2001) data to have been used. This analysis can be accomplished by making the following changes:

- (1) Change the MLOCR-ISS/RCR finalization rate for handwritten mail (page 51) from 82.77% to 69.03%
- (2) Change the wages rates and premium pay factors (page 47) to those used in Docket No. R2000-1, USPS LR-I-467.

In this instance, the improvements to letter recognition enhancements programs have not been offset by wage rate increases.

As stated in the response to MMA/USPS-T22-5(a), it is difficult to engage in a similar analysis for the First-Class presort worksharing categories because of cost methodology changes. I have therefore changed the wording in footnotes 7, 14, and 16 in my testimony. In all three footnotes, the phrase "some cases" has been changed to "one case." Please see the revisions filed on 11/29/01.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-9

- (a) Please confirm that mail delivered in all Automated First-Class Letter Mail rate categories is required, in order to qualify for the automated rate category discounts, to be sleeved, banded and ACT tagged.
- (b) Please confirm that this requirement was imposed upon implementation of MC95-1 on July 1, 1996.
- (c) Please confirm that there is no such requirement for First-Class Bulk Metered mail Letters that they be sleeved, banded or ACT tagged.

RESPONSE:

- (a) Not confirmed. It is my understanding that mail that destines within the service area of the plant does not have to be sleeved and banded. In addition, plant managers can grant exceptions that would preclude mailers from having to sleeve and band trays. Air Transportation Contract (ACT) tags are never required.
- (b) It can be confirmed that the requirements as stated in the response to ABA&NAPM/USPS-T22-9(a) were implemented on July 1, 1996.
- (c) Confirmed. BMM letters are not presorted and would require immediately processing during the outgoing processing window. Consequently, the Postal Service would not require that these trays be sleeved and banded. As stated in the response to ABA&NAPM/USPS-T22-9(a), ACT tags are never required.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-10

- (a) Please confirm that mail delivered in all Automated First-Class Letter Mail rate categories is required, in order to qualify for the automated rate category discounts, to comply with specified Postal Service move update requirements.
- (b) Please confirm that First-Class Bulk Metered Mail Letters are not required to comply with any Postal Service move update requirements. If you cannot confirm please explain why.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-12

- (a) Please see the Direct Testimony of Linda Kingsley (USPS-T-39) at page 4, line 22 and footnote 7 where she assumes that MLOCRs can be staffed by two clerks, with one feeding and the other sweeping its 60 stackers. Was your calculation of worksharing related savings for the Automated First-Class Letter Mail rate categories affected by the assumption that MLOCRs are staffed by two clerks?
- (b) Please recalculate the Worksharing Related Savings set forth in column 5 of page one of Library Reference USPS LR-J-60 ("First-Class Mail Presort Letters Summary"), revised 11-05-01, for all Automated First-Class Letter Mail rate categories, assuming that three clerks are used to staff a MLOCR. Please do the same assuming that four clerks are used to staff the MLOCR.
- (c) Please provide the same revised Worksharing Related Savings shown on Library Reference USPS LR-J-84 ("First-Class Mail Presort Letters Summary PRC Version"), revised 11-05-01, assuming MLOCRs are staffed by four clerks.

RESPONSE:

- (a) Witness Kingsley does not "assume" that MLOCRs are staffed by two mail processing clerks. These machines are staffed by two mail processing clerks. This staffing is reflected in the productivity figures I use in USPS LR-J-60.
- (b) The data required to support this analysis are not available, given that MLOCRs are staffed by two mail processing clerks.
- (c) Redirected to the Postal Service.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-15

- a. See pages 3-4 of your Direct Testimony, and please confirm your view is that USPS mail processing automation efforts starting in 1988 focused on reducing the costs of First Class single piece mail because it "represented nearly 70% of the total First-Class letter mail volume.
- b. Is it your view that most of the USPS efforts to reduce mail processing costs in First Class continue to focus on single piece mail?
- c. Please provide any data or information which you have which would indicate how much of the USPS automation efforts have been devoted to reducing costs of single piece as opposed to bulk entered mail in First Class, including pre-barcoded mail.
- d. Now that projected TY volumes for FCM workshared exceed that for single piece, do you believe the USPS should devote more efforts to reducing those costs, following the logic of part a. above?
- e. Please confirm that TY 2003 unit mail processing cost for F-C presort automation letters has fallen from TY 2001 costs in R2000-1 from 4.06 cents to 3.63 cents (-11%), while for Standard (A) Regular letters automated, it has fallen from 5.17 cents to 3.82 cents (-26%).
- f. How many cost reduction efforts have been allocated to Standard A Regular letters? To First Class workshared letters?

RESPONSE:

- (a) Please see USPS-T-22, page 4 at 7-10, where I state:

Accordingly, the Postal Service's initial efforts to automate the letter and card mail processing operations were focused on reducing, or at least containing, the costs for non-barcoded letters and cards, the vast majority of which were found in the First-Class single-piece mail stream.

It can be confirmed that the initial automation deployments included computer systems and equipment retrofits (e.g., the Remote Bar Coding System, Input Sub System retrofits, and Output Sub System retrofits) that would provide the Postal Service with the ability to apply POSTNET barcodes to non-barcoded letters and cards.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
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RESPONSE TO ABA&NAPM/USPS-T22-15 (CONTINUED)

- (b) It is my view that the Postal Service continues to evaluate cost containment opportunities, including those related to First-Class single-piece letters and cards.
- (c) Postal Service automation deployments have enhanced the organization's ability to process all machinable letters and cards, regardless of the specific postage paid. Please see USPS-T-22, page 4 at 12-14. Delivery Point Sequencing (DPS) incoming secondary operations can be used to illustrate this point. DPS processing began in 1993. The DPS operation sorts the mail in the order a carrier walks his or her route and can be performed on a Mail Processing Bar Code Sorter (MPBCS), a Delivery Bar Code Sorter (DBCS), or a Carrier Sequence Bar Code Sorter (CSBCS). By sorting the mail in carrier walk sequence, in-office carrier casing time can be reduced. Given that letters and cards from all rate categories are sorted simultaneously in the DPS incoming secondary operation, this processing method has enhanced the organization's ability to process all machinable letters and cards.
- (d) The Postal Service has expended resources to contain the costs for presort letters and cards. For example, expansion modules were added to the DBCS. When the DBCS is used for non-incoming secondary operations, the additional DBCS bin capacity has reduced the likelihood that barcoded mail pieces would have to be processed in downstream operations.
- (e) The Docket No. R2000-1 figures should be taken from USPS LR-I-477, which used the same IOCS methodology for separating automation and nonautomation costs as the figures contained in USPS LR-J-60. In addition, these figures are not directly comparable.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

RESPONSE TO ABA&NAPM/USPS-T22-15 (CONTINUED)

In Docket No. R2000-1, the First-Class automation non-carrier route presort letters mail processing unit cost estimate found in USPS LR-I-477 was 3.772 cents. In this docket, the First-Class automation presort letters mail processing unit cost found in USPS LR-J-60 is 3.631 cents. This latter figure includes the costs for First-Class automation carrier route presort letters. In the last docket, a separate CRA-derived cost estimate for First-Class automation carrier route presort letters was used.

In Docket No. R2000-1, the Standard Regular automation non-carrier route presort letters mail processing unit cost estimate found in USPS LR-I-477 was 4.559 cents. The Standard Nonprofit automation non-carrier route presort letters mail processing unit cost estimate was 4.461 cents. In this docket, an aggregate mail processing unit cost estimate for Standard automation non-carrier route presort letters is used due to the passage of Public Law 106-384.

- (f) The automation efforts described in the responses to ABA&NAPM/USPS-T22-14(c) and (d) have enhanced the Postal Service's ability to process First-Class presort letters and cards, and Standard presort letters.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-16 As between TY 2001 from R2000-1 and TY 2003 in this case, please confirm that the total unit mail processing costs for FCM single piece metered letters has increased from 10.77 cents to 10.83 cents.

RESPONSE:

Not confirmed. The CRA mail processing unit cost estimate for First-Class single-piece metered letters has increased from 10.659 cents to 10.826 cents. The Docket No. R2000-1 figure should be taken from USPS LR-I-464. This library reference contains CRA mail processing unit cost estimates that are calculated using the BY 1999 IOCS cost methodology that is consistent with that used to calculate the CRA mail processing unit cost estimates contained in Docket No. R2001-1, USPS LR-J-53.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-20 For your metered letters cost sheet mail flow model, the RBCS pieces handled appear to be substantially different than their R2000-1 equivalents for the RCR, REC, OSS, and LMLM operations. Please explain each such difference.

RESPONSE:

It is assumed that this interrogatory refers to the Bulk Metered Mail (BMM) letters cost model found in USPS LR-J-60 on pages 15 and 16.

The cost model was revised in this docket to utilize the combined Multi Line Optical Character Reader Input Sub System / Remote Computer Read (MLOCR-ISS/RCR) finalization rate forecast in the most recent Decision Analysis Requests (DAR). Consequently, there is no longer a separate RCR node. Please see USPS LR-J-62 and USPS LR-J-157. In addition, please see the response to MMA/USPS-T22-4(E1). The improved RCR finalization rate has reduced the volume of mail requiring Remote Encoding Center (REC) processing. Enhancements to the MLOCR-ISS have improved that machine's ability to apply barcodes directly to mail pieces. Consequently, the volume of mail that requires Remote Bar Coding System (RBCS) processing, including Output Sub System (OSS) processing, has been reduced. Finally, mail pieces that contained POSTNET barcode verification errors used to be isolated on the OSS. These mail pieces would be routed to a Letter Mail Labeling Machine (LMLM) where a label would be applied over the barcode. Those mail pieces were subsequently reprocessed on the OSS. The OSS can now sort mail pieces using the RBCS ID tags on the back of those mail pieces when these problems occur. Consequently, some LMLM tasks can now be avoided.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-22 For the FCM auto 3-digit presort letters cost sheet, please confirm that total pieces handled per hour for the auto 3-Pass DPS have more than doubled to 32,363/hour compared to the TY 2001 counterpart in R2000-1, which was 14,898/hour.

RESPONSE:

Confirmed. Please see the response to OCA/USPS-T39-19.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-23 Please confirm that the modeled MP cost for auto 5-digit "other" sites has dropped between TY 2001 and TY 2003 from 1.719 cents to 1.540 cents. Confirm it has dropped for auto 3-digit from 3.093 cents to 3.017 cents.

RESPONSE:

It can be confirmed that the cost estimate for First-Class automation 5-digit presort letters not processed at Carrier Sequence Bar Code Sorters (CSBCS) or manual sites was 1.755 cents in Docket No. R2000-1 (please see USPS LR-I-477). In this docket, the corresponding cost estimate is 1.540 cents (please see USPS LR-J-60).

It can be confirmed that the cost estimate for First-Class automation 3-digit presort letters was 3.165 cents in Docket No. R2000-1 (please see USPS LR-I-477). In this docket, the corresponding cost estimate is 3.017 cents (please see USPS LR-J-60).

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-29 Please refer to your testimony page 12 line 11 and your response to Part H of interrogatory KE/USPS-T22-20. You state that for accept and upgrade rates you have relied on the Docket No. R97-1 study.

- a. Are you saying that since R97-1 there have been no additional studies conducted that would allow for an update in these rates?
- b. Hasn't USPS been able to enhance or improve the current technology in this regard, and if so why are you relying on an R97-1 study?
- c. Are you aware of any attempts made by USPS to improve the productivity in this regard or conduct new studies to update the rates as it did in the case of Input Sub Systems (ISS)?

RESPONSE:

- (a) It is my understanding that the specific study found in Docket No. R97-1, USPS LR-H-130 has not been updated. However, updated accept and upgrade data and assumptions have been used. For example, the MLOCR-ISS/RCR finalization rates from USPS LR-J-62 are used. In addition, assumptions in the models were changed to reflect the fact that the ID tag can be used to sort some problem mail pieces.
- (b) Yes. Please see the changes described in the response to ABA&NAPM/USPS-T22-29(a). In some cases, the only data available are the data contained in the Docket No. R97-1 study (USPS LR-H-130).
- (c) Productivity data were not collected in the Docket No. R97-1 study (USPS LR-H-130). Updated accept and upgrade data have been included in the models as described in the response to ABA&NAPM/USPS-T22-29(a).

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-30 Please refer to your responses to part H of interrogatory KE/USPS-T22-33 and to interrogatory of ABA&NAPM/USPS-T22-3. You responded that since it is difficult to find an estimate for the unit cost for BMM letters you use the mail processing unit costs for all metered letters as a proxy.

- a. In your opinion do the mail processing unit costs for all metered letters used as a proxy for cost of BMM letters, overestimates or underestimates the true unit cost of BMM letters. Please explain your answer in detail why it might overestimate or underestimate it.
- b. How can you justify using cost of all metered letters as a proxy for BMM letters?
- c. Please explain in detail why it is difficult for you or USPS to finally provide an estimate of the unit cost for BMM letters rather than using a proxy.

RESPONSE:

- (a) In my opinion, the proxy likely overestimates those costs.
- (b) There are no other data that can be used as an alternative.
- (c) It is my understanding that the In-Office Cost System (IOCS) cannot be used to isolate a mail processing unit cost estimate for Bulk Metered Mail (BMM) letters.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T22-31 Please refer to your response to part D of interrogatory of MMA/USPS-T22-32. You state, "In general, First-Class Mail letters and Standard Mail letters are processed using the same MODS operations number. Consequently, it is not always possible to collect data by class using postal data collection systems. CRA adjustment factors are applied to the model costs to compensate for the fact that disaggregated data are not available.

- a. When you say "...it is not always possible..." Do you mean it is sometimes possible to collect the required data? If your answer is yes, please explain in detail why then it is not always possible to collect the data.
- b. Isn't it desirable that for designing rates and discounts in regard to two of the most important and competing mail categories for the USPS to always collect data so that one can obtain a better estimate of these costs rather than using CRA adjustment factors.
- c. Isn't it possible for the USPS to design its data collection in such a way to attach an additional code number to each MODS number to represent the mail type? If you cannot answer this question, please refer it to a party, who is able to provide reasons why USPS cannot or has not been able or will not do this.
- d. In your opinion, does the use of CRA adjustment factors "...to compensate for the fact that disaggregated data are not available" result in the same unit costs as if USPS had collected the disaggregated data. If your answer is no, please explain why using CRA adjustment factors results in overestimate or underestimation of the costs.

RESPONSE:

- (a) Yes. *On occasion, it is possible to collect data by class using postal data collections systems. For example, premium pay factors can be isolated by class of mail. In other instances, it is not. For example, the MODS system does not collect productivity data by class of mail.*

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS

RESPONSE TO ABA&NAPM/USPS-T22-31 (CONTINUED)

- (b) Ideally, yes. But time and resource constraints make it difficult to collect all possible data related to the processing of all possible rate categories under all possible circumstances.
- (c) No. Different classes of mail are processed sometimes processed in the same operations (e.g., DPS) at the same time.
- (d) I do not know the extent to which results developed using CRA adjustment factors would differ from those using cost models with more detailed input data, given that the latter scenario does not exist.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS ROBINSON**

ABA&NAPM/USPS-T29-7

- a. Do you agree that in the history of worksharing discounts for FCM letters, there have been (at least) three distinct philosophies for what constitutes the benchmark you refer to starting at page 9, line 15 of your testimony? Namely, the Commission's "Appendix F" method based on cost differences between actual mailstreams, single piece and presort; the Postal Service's "identical piece" method based on comparisons between a hypothetical construct and an actual piece of mail, a mailpiece identical in every respect to a presort letter except for the presort versus a presorted letter; and finally the "most likely conversion" method based on comparisons between bulk and metered mail and prebarcoded/presorted letters.
- b. Would you agree that the Commission's Appendix F methodology generally provided a basis for larger discounts than the Postal Service's identical piece methodology?
- c. Would you agree that the Commission's 100% volume variability methodology generally provides a basis for larger discounts than the Postal Service's less-than-100% volume variability methodology, albeit using the same benchmark?

RESPONSE:

- (a) I agree, given the following clarification. A discussion of the three methodologies can be found in PRC Op. MC95-1 beginning at [4214]. These three methodologies include: the "clearly capturable cost avoidance" approach, the "full cost difference" approach, and the "hybrid" approach. As the Commission stated in PRC MC95-1 at [4220]:

...cost differentials based on engineering models tend to be underinclusive. CRA-based estimates generally include costs whether or not they are avoided by a worksharing operation. Therefore, cost differentials based on CRA estimates tend to be overinclusive.

Consequently, hybrid cost methodologies have been relied upon by the Commission when developing the worksharing related savings estimates for the First-Class Mail presort rate categories in both Docket Nos. R97-1 and R2000-1.

- (b) Yes. A hybrid approach generally results in larger savings estimates when compared to the clearly capturable cost avoidance approach.
- (c) In most instances, yes.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS ROBINSON

ABA&NAPM/USPS-T29-27 In your table accompanying your response to MMA/USPS-T29-6, please confirm that one reason the Postal Service's measure of avoided costs has gone down across three rate cases is that USPS witnesses have used different methodologies in each case showing, ceteris paribus, more narrowly measured cost avoidance as a direct result of the changed methodology.

RESPONSE:

A hybrid cost methodology has been used in each of the past three cases. It can be confirmed that refinements have been made in both Docket No. R2000-1 and this docket in an attempt to more closely isolate the mail processing and delivery unit cost savings related to the prebarcoding and/or presorting of First-Class Mail presort letters and cards.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORY OF GREETING CARD ASSOCIATION
REDIRECTED FROM WITNESS ROBINSON

GCA/USPS-T29-16

All else equal, would a reduction in the cost of non-workshared letters result in smaller cost differentials between workshared and non-workshared letters? If your answer is negative, please explain why.

RESPONSE:

Not necessarily. It depends on the specific cost reduction.

For example, a cost reduction related to Remote Computer Read (RCR) enhancements would affect the cost of non-workshared letters, but would not affect the cost of workshared letters. If increasing wage rates did not offset this cost reduction over time, the cost differential could decrease.

Other mail processing improvements, however, could affect the costs for both non-workshared letters and workshared letters. For example, the deployment of Delivery Bar Code Sorter (DBCS) expansion modules could reduce the average handlings per piece for both non-workshared letters and workshared letters. In this instance, a reduction in the costs for non-workshared letters would not necessarily result in a smaller cost differential between workshared letters and non-workshared letters.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY**

KE/USPS-T22-1 On page 46 of Library Reference USPS-LR-J-60 you list marginal (volume variable) productivities that you employ in your analyses.

- A. Please describe the Outgoing ISS operation, including the number of separations that result when that operation is completed.
- B. Please describe the Outgoing OSS operation, including the number of separations that result when that operation is completed.
- C. Please describe the Outgoing BCS Primary operation, including the number of separations that result when that operation is completed.
- D. Please fully explain why the MODS productivity for the Outgoing OSS (9,177) is 46 % greater than the MODS productivity for the Outgoing ISS (6,269).
- E. Please fully explain why the MODS productivity for the Outgoing OSS (9,177) is 60 % greater than the MODS productivity for the Outgoing BCS Primary (5,724).
- F. Please fully explain why the MODS productivity for the Outgoing ISS (6,269) is 10 % greater than the MODS productivity for the Outgoing BCS Primary (5,724).
- G. Please confirm that the Outgoing ISS operation entails reading an I.D. tag, pairing the address from the REC with the I.D. tag, applying the barcode, and sorting the letters. If you cannot confirm, please explain and provide appropriate references to the record in this proceeding, and copies of any other documents you reviewed to arrive at your conclusion that the Outgoing ISS operation does not entail the listed operations.
- H. Please fully explain how the Outgoing ISS, which must read an I.D. tag, find the address, apply the barcode and sort the letters, has a 60% greater productivity than the outgoing BCS primary, which merely has to sort letters that already have a barcode applied.

RESPONSE:

- (A) The Input Sub System (ISS) "lifts" the "images" of mail pieces that have historically had a low encoding (barcoding) rate. Mail piece images are lifted using the AFCS-ISS, MLOCR-ISS or DIOSS. The bin capacity on these machines varies.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-1 (CONTINUED)

The Advanced Facer Canceler System Input Sub System (AFCS-ISS) culls, cancels, lifts images, and sorts mail. The AFCS-ISS contains seven bins and can sort mail into one of four categories: (1) prebarcoded (FIM A and C), (2) handwritten, (3) "enriched" or machine printed (OCR-readable), and (4) rejects. National policy dictates that the AFCS-ISS is used to lift images for handwritten mail pieces only.

Machine printed mail pieces will be routed to the Multi Line Optical Character Reader (MLOCR-ISS). The MLOCR-ISS contains either 44 or 60 bins. Generally, two bins are reserved for mail that cannot be encoded by the MLOCR-ISS. One bin is maintained for mail that receives no resolution and one bin is maintained for mail that receives a 5-digit resolution. All mail pieces routed to these bins will have their images lifted.

As stated in witness Kingsley's testimony (USPS-T-39, page 6 at 21), the Postal Service has retrofitted some Delivery Bar Code Sorters (DBCS) to include Input and Output Sub System (DIOSS) capabilities. The DIOSS has the greatest bin capacity (up to 300 bins), but the number of bins varies based on specific plant requirements. This DIOSS lifts images in a manner similar to the MLOCR-ISS.

Each ISS sprays a fluorescent ID Tag on the back of every mail piece fed through the machine, whether the mailpiece has an image lifted or not. The images are controlled by the Image Processing Sub-System (IPSS). Mail piece images are first routed through the RCR (Remote Computer Read). If the RCR cannot resolve the image, it will be forwarded to the Remote Encoding Center (REC) for manual keying. These systems are all components of the Remote Bar Coding System (RBCS).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-1 (CONTINUED)

Mail pieces that have been processed through RBCS are placed in trays and loaded into properly labeled containers. A placard displaying the image lift time, the bin of origin, and the ISS number is typically placed on each container. These containers are moved to a staging area and will be processed later in an Output Sub System (OSS) operation.

- (B) The image processing results from RBCS are forwarded to the Decision Storage Unit (DSU). These results are stored in the DSU where they will reside until retrieved by the OSS. The OSS will read the ID tag, retrieve the corresponding result, and apply a POSTNET barcode to the mail piece based on that result. OSS operations can be performed on one of three pieces of equipment: the Delivery Bar Code Sorter Output Sub System (DBCS-OSS), the Mail Processing Bar Code Sorter Output Sub System (MPBCS-OSS) and the DIOSS. The bin capacity on these machines varies. The MPBCS-OSS has 96 bins. The DBCS-OSS and DIOSS have greater bin capacity, but the number varies based on the specific requirements at each plant.
- (C) The automation outgoing primary operation is often referred to as a "FIM" operation at many plants because it is typically used to process the Courtesy Reply Mail (CRM) and Business Reply Mail (BRM) letters and cards that have been isolated in the cancellation operation. Both the MPBCS-OSS and DBCS can be used for this operation. The MPBCS-OSS has 96 bins. The DBCS has greater bin capacity, but the number varies based on the specific requirements at each plant.
- (D) Please see the response to KE/USPS-T39-14(H).
- (E) Please see the response to KE/USPS-T39-14(H).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-1 (CONTINUED)

(F) Please see the response to KE/USPS-T39-14(H).

(G) Not confirmed.

The Input Sub System (ISS) is used to read the addresses and apply barcodes to mail pieces. If the address cannot be fully interpreted, the ISS applies an ID tag to the mail piece and lifts the image. Mail pieces that have images lifted on the ISS must be staged for subsequent processing.

The images proceed directly to the Remote Computer Read (RCR) system. The RCR is basically a computer that contains image recognition software. If the RCR can finalize the images, the results are transmitted to the Decision Storage Unit (DSU). The DSU is a computer that stores the results. If the RCR cannot finalize the images, it will forward the images over "T1" (telephone) lines to the Remote Encoding Center (REC) for further processing.

Data Conversion Operators (DCO) key the addresses they see on Video Display Terminals (VDT) at the REC. The results that are achieved are transmitted back over the T1 lines to the DSU at the plant.

Once a supervisor determines that adequate time has been given for the activities described above to occur, the mail that was originally processed on the ISS is retrieved from the staging area and processed on an Output Sub System (OSS). The OSS reads the ID tag on the mail piece, retrieves the corresponding result from the DSU, and applies a barcode to the mail piece.

(H) Please see the response to KE/USPS-T39-14(H).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T22-2 On page 27 of your Direct Testimony you indicate that in the test year, 92.3 percent of handwritten letters will be finalized within the MLOCR-ISS/RCR operation. On page 51 of Library Reference USPS-LR-J-60 you show that the acceptance rate for MLOCCR/ISS/RCR handwritten letters is 82.77%. Please explain what accounts for this apparent inconsistency.

RESPONSE:

The Letter Recognition Enhancement Program (USPS LR-J-62) will achieve an aggregate Multi Line Optical Character Reader Input Sub System (MLOCR-ISS) / Remote Computer Read (RCR) finalization rate of 93.20 percent. This is an 8 percent improvement over the finalization rate (85.20 percent) achieved by the Recognition Improvement Program (RIP). This RIP program included separate finalization rates for both machine printed (88.40 percent) and handwritten (74.77 percent) mail pieces. The Letter Recognition Enhancement program is structured differently in that an incentive contract will be awarded to the vendor. Consequently, the focus has been on the aggregate finalization rate. In order to develop cost estimates, however, I added the 8 percent improvement figure to the disaggregate RIP finalization rates for machine printed and handwritten mail pieces. As an alternative, the aggregate finalization rate could have been used for both machine printed and handwritten addresses. This methodology would have resulted in higher cost estimates for nonautomation machinable mail pieces and a lower worksharing related savings estimate for QBRM. These figures are for the test year for all letters and cards. Data by class of mail are not available.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T22-3 On page 12 of Library Reference USPS-LR-J-60 you show that only 110 of 10,000 pieces, or 1.1 % of all handwritten addressed letters cannot be provided with a barcode or are non-machinable. Such letters, as you show, are processed manually in the outgoing primary operation.

- A. Please confirm that out of 10,000 handwritten pieces that enter the RBCS, you show that 8,277 letters (cell H24) successfully receive a barcode in the ISS and are sent to automation barcode sorting equipment, 1,613 letters (cells E40 + G41) successfully receive a barcode in the OSS and are sent to automation barcode sorting equipment and the remaining 110 letters (cells H30 + H37) are sent as either leakage or rejects to the outgoing manual primary operation. If you cannot confirm, please explain and provide corrected numbers, with source references.
- B. Please justify your assumption that 98.9% of handwritten addressed envelopes will be provided with a barcode and are sent to an automated sortation and provide copies of all studies or other documents that discuss the percentage of handwritten addressed envelopes that can be provided with a barcode and sent to automated sortation.
- C. Did you take into account the problems associated with handwritten addressed letters that were studied in the USPS Address Deficiency Study that was provided by the Postal Service in Docket No. R2000-1 as Library Reference USPS-LR-I-192? If not, why not? If yes, please list all the problems identified in the referenced Library Reference and, for each problem listed, please provide a detailed explanation of how you took that problem into account.
- D. Please confirm that the outgoing RBCS, which reads an address, obtains the correct barcode, barcodes the letter and sorts the letter, has a 1.1% reject rate for handwritten letters, whereas a barcode sorter that sorts pre-approved, prebarcoded QBRM letters has a 4.9% reject rate. If no, please explain.

RESPONSE:

- (A) Not confirmed. Please see the revisions filed on 11/05/01 and 11/15/01.
- (B) I made no such "assumption." The mail pieces that flow through the models and are processed in specific operations are a function of the data inputs that are used. Please see the revisions filed on 11/05/01 and 11/15/01. Some data specific to handwritten mail pieces can be found in Docket No. R97-1, USPS LR-H-130.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-3 (CONTINUED)

- (C) No. The Commission stated that such consideration was not appropriate in its Docket No. R2000-1 Opinion and Recommended Decision. Please see PRC Op. R2000-1 at paragraph 5092.
- (D) Not confirmed. Please see the revisions filed on 11/15/01. In USPS LR-J-60 on page 12, the amount of mail that is "rejected" would include the 212 mail pieces flowing to the manual outgoing primary operation, as well as the 686 pieces where a 5-digit barcode was the only result that could be achieved. In total, 898 pieces would be rejected. In addition, the cost for processing these rejects was not included in the analysis, based on the revised methodology that was adopted on 11/05/01.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T22-4 Within First-Class single piece, is the percentage of handwritten addressed envelopes that are processed manually more likely to be higher, lower, or about the same as:

- A. typewritten or computer addressed envelopes, such as a metered letters;
- B. prebarcoded envelopes not originally sent out as inserts in Automation letters;
- C. prebarcoded envelopes that are originally sent out as inserts in Automation letters; and
- D. QBRM letters.

Please explain your answers.

RESPONSE:

- (A) The cost models in USPS LR-J-60 rely on average data inputs due to the fact that all letters and cards are processed in the same operations. Disaggregate data are not available. To the best of my knowledge, no studies have been conducted to isolate the requested data, other than USPS LR-H-130 from Docket No. R97-1.
- (B) Please see the response to KE/USPS-T22-4(A).
- (C) Please see the response to KE/USPS-T22-4(A).
- (D) Please see the response to KE/USPS-T22-4(A).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY**

KE/USPS-T22-22 Please refer to page 39 of your Direct Testimony where you indicate that the productivity for "riffing" letters was used as a proxy for manual counting.

- A. Please briefly describe the "riffing" operation (MODS operation 029).
- B. Please describe and explain all the reasons that postal clerks "riffle" through trayed mail letters.
- C. What is the manual sorting productivity that you referred to at that point in your Direct Testimony and what MODS operation covers such activity.
- D. Please describe the specific activities and operations entailed in searching for mis-sorts. Please be sure to indicate whether the trays in which postal clerks are sorting for mis-sorts are addressed to one recipient or numerous recipients.
- E. Please describe how the FY2000 "riffing" productivity of 2,134 pieces per hour was adjusted by a volume variability factor to arrive at the productivity used in your cost model.
- F. Please explain why you did not simply perform a study, similar to the one you performed for counting by weighing techniques, in order to obtain directly the productivity for counting letters.
- G. Please explain why you believe your estimate for counting letters is more accurate than the KeySpan study presented in Docket No. R00-1, which resulted in a higher productivity of 2,746 pieces per hour.

RESPONSE:

- (A) Please see USPS-T-22, page 39 at 4-5.
- (B) It depends on the site, but it is my understanding that clerks could use the riffing operation to cull out mail pieces that are nonmachinable, mis-oriented, or mis-sorted.
- (C) Please see Docket No. R2000-1, USPS-T-29, page 16, footnote 6. The activities are likely performed in a postage due operation represented by MODS operation number 930.
- (D) The example I use in my testimony for riffing operations is not meant to denote a specific procedure that is used nationally to detect mis-sorts. The

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-22 (CONTINUED)

culling of mis-sorts was simply an example I use to illustrate why clerks might engage in riffling activities. For example, I observed clerks at one plant riffling through trays of remittance mail destined for several local banks before that mail was delivered. This task was performed to ensure that mail pieces were not mis-routed to the incorrect remittance processing facility.

- (E) My testimony relies on the Postal Service volume variability cost methodology. Consequently, I adjusted the actual MODS productivity by a volume variability factor for postage due operations in order to derive the "marginal productivity." Please see USPS LR-J-60, page 103.

Marginal Productivity = MODS Productivity / Volume Variability Factor

Marginal Productivity = 2,134 pieces per hour / 0.94

Marginal Productivity = 2,270 pieces per hour

- (F) Predetermined time systems, like Methods Time Measurement (MTM), are typically used when there is no other data available or it is necessary to avoid the performance rating process associated with standard time studies. Given that MODS data are available for the riffling operation, an MTM analysis was not conducted.
- (G) It is my understanding that the KeySpan study was not an industrial engineering study and did not fully address the operational realities of the postal mail processing environment. For example, elements related to operation setup and teardown were not included.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T22-25 Please refer to your response to Part C of Interrogatory KE/USPS-T22-3 where you rely on the Commission's Docket No. R2000-1 Opinion to disregard problems with handwritten letters reported by the USPS Address Deficiency Study.

- A. Please explain exactly where in paragraph 5092 the Commission indicates that when deriving QBRM cost savings it is "not appropriate" to consider address deficiencies that are inherent in letters that have a handwritten address.
- B. Please list all the problems identified in the referenced USPS Address Deficiency Study and, for each problem listed, provide a detailed explanation of whether and how your QBRM cost savings analysis took that problem into account.
- C. Please confirm that for every 10,000 QBRM letters that are replaced with handwritten addresses, not one will exhibit the problems studied by the USPS Address Deficiency Study. If no, please explain.

RESPONSE:

- (A) It was assumed that interrogatory KE/USPS-T22-3(C) referred to instances where deficiencies would exist such that handwritten reply mail pieces might be returned or forwarded. In that instance, the citation would apply.
- (B) I was not involved in the address deficiency study and did not specifically isolate costs related to address deficiencies in completing my analysis. However, it seems that many of the deficiencies listed on page 7 of that study would not apply, assuming a handwritten reply mail letter would be addressed to the same post office box as a QBRM letter. For example, deficiencies related to tenant moves, apartment numbers, directional suffixes, rural routes, street names and street numbers would not apply. In addition, handwritten letters are processed through the Remote Bar Code System (RBCS), which contains mechanisms to rectify various address deficiencies. These RBCS costs would be imbedded in the QBRM cost study.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-25 (CONTINUED)

Attachments 1 through 5 to this response will be used to illustrate this point. I have a post office box at the L'Enfant Plaza station. The correct address is:

P.O. Box 44623

Washington, DC 20026-4623

Attachment 1 is an envelope that contained a holiday greeting card that was sent to me by a local acquaintance. This mail piece contains the incorrect ZIP Code. Despite this fact, the RBCS system applied the correct barcode to this mail piece. The character "+" located between the ZIP Code and 4-digit add-on code that was applied by the Output Sub System (OSS) indicates that the mail piece was finalized by the Remote Computer Read (RCR) system.

Attachment 2 is an envelope that contained a holiday greeting card that was sent to me by a former coworker. This mail piece contains the incorrect 4-digit add-on code. Despite this fact, the RBCS system applied the correct barcode to this mail piece. The character "/" located between the ZIP Code and the 4-digit add-on code that was applied by the OSS indicates that the mail piece was finalized by Data Conversion Operators (DCO) at the Remote Encoding Center (REC).

Attachment 3 is an envelope that I mailed to myself. This mail piece contains an incorrect 5-digit ZIP Code. Despite this fact, the RBCS system applied the correct barcode to this mail piece. The character "/" located between the ZIP Code and the 4-digit add-on code that was applied by the OSS indicates that the mail piece was finalized by DCO's at the REC.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

RESPONSE TO KE/USPS-T22-25 (CONTINUED)

Attachment 4 is an envelope that I mailed to myself. This mail piece contains the incorrect two-character state abbreviation. Despite this fact, the RBCS system applied the correct barcode to this mail piece. The character "/" located between the ZIP Code and the 4-digit add-on code that was applied by the OSS indicates that the mail piece was finalized by DCO's at the REC.

Attachment 5 is an envelope that I mailed to myself. This mail piece contains the incorrect city and 5-digit ZIP Code. Despite this fact, the RBCS system applied the correct barcode to this mail piece. The character "/" located between the ZIP Code and the 4-digit add-on code that was applied by the OSS indicates that the mail piece was finalized by DCO's at the REC.

These five examples illustrate how RBCS can rectify various address deficiencies.

- (C) As this question is worded, it is unclear to me whether this question refers to QBRM letters or handwritten letters. Regardless, QBRM letters and handwritten reply mail letters could both contain address deficiencies. As stated in the response to KE/USPS-T22-25(B), handwritten letters are processed through systems that have the ability to correct those problems. QBRM letters, on the other hand, are typically processed on bar code sorters only. Neither the Mail Processing Bar Code Sorter (MPBCS) nor the Delivery Bar Code Sorter (DBCS) have the ability to correct a barcode that does not match the address or that matches an incorrect address. However, it is assumed that QBRM recipients would do everything in their power to ensure that their customers use the correct address, given that these mail pieces typically contain remittances or responses to solicitations.

1370



Mike Miller
PO Box 44623
Washington DC 22204

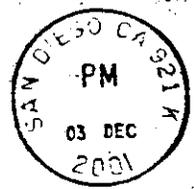
INCORRECT

RCR

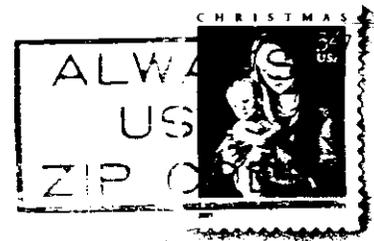
200244623



RESPONSE TO KE/USPS-100-25(B)
ATTACHMENT 1



1371

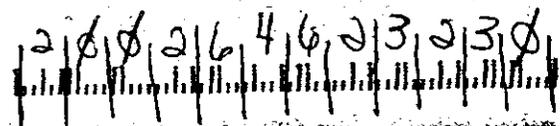


MIKE MILLER
PO Box 44623
WASHINGTON DC 20026-4633

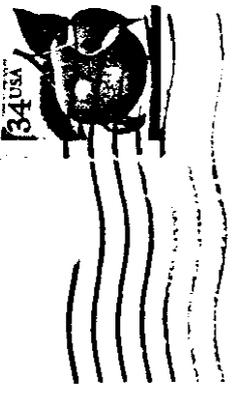
REC
KEYERS

INCORRECT

20026-4633



RESPONSE TO KE/USPS-T22-25 (B)
ATTACHMENT 2



UNITED STATES
POSTAL SERVICE

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260

MIKE MILLER
P.O. BOX 44623
WASHINGTON, DC 20073

REC
KEVER

200204623

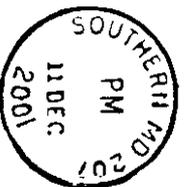
01/02/01 4623/23/0 INCREASE

RESPONSE TO KE/USPS-T22-25(B)
ATTACHMENT 3



UNITED STATES
POSTAL SERVICE

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260



MIKE MILLER

P.O. BOX 44623

WASHINGTON, (CA) 20026

REC
KENERES

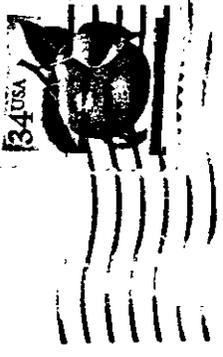
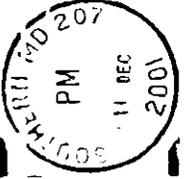
↑
INCORRECT

200264623
21900264623

RESPONSE TO KE/USPS-T22-25 (B)
ATTACHMENT 4



475 L'ENFANT PLAZA SW
WASHINGTON DC 20260



MIKE MILLER

P.O. BOX 4423

ARLINGTON VA

Z0026

REC
KEYERS

INCORRECT

200204623

41621312130
INCORRECT

RESPONSE TO KE / USPS-122-25CB)
ATTACHMENT 5

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF KEYSpan ENERGY

KE/USPS-T22-29 Please refer to your response to Part I of Interrogatory KE/USPS-T22-7, which asked you to confirm certain information regarding the percentage of letters that were successfully **barcoded** by automation. Because you revised your testimony after receiving that interrogatory, you did not confirm the figures provided to you in the interrogatory. In addition, your response seems to address the percentage of letters successfully **sorted** by automation, not the percentage successfully **barcoded** by automation, as the interrogatory requested. Therefore, please provide the percentage of the 10,000 originating letters in your models that are successfully **barcoded** (either 5-, 9-, or 11-digits) for the following categories of mail:

- A. HAND letters;
- B. BMM letters; and
- C. Single Piece machinable letters.

RESPONSE:

The term "successfully barcoded" would only apply to mail pieces that have 11-digit barcodes. The purpose of my testimony as outlined in Section I does not include estimating the percentage of mail that is barcoded. The figures shown below are based on data that, in some cases, were collected in 1997. In addition, the cost models are simplified representations of mail processing operations. Consequently, these figures may not be an accurate representation of the actual percentages of mail that will be barcoded for each mail type.

- (A) 91.02 percent. This figure actually represents the percentage of barcoded First-Class single-piece handwritten reply mail letters.
- (B) 98.58%.
- (C) 98.68%. This figure actually represents the percentage of barcoded First-Class single-piece machinable letters that contain machine printed addresses.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-7 On page 9 of your Direct Testimony you indicate why you have modified the classification of two cost pools, namely 1suppf1 and 1suppf4.

- A. Please confirm that these two cost pools, when combined, cost metered letters and automation letters .4428 and .1011 cents, respectively. If you cannot confirm, please explain.
- B. Please confirm that your data shows that, for these two cost pools, meter letters cost .3417 cents more than automation letters. If you cannot confirm, please explain.
- C. Please explain fully why metered letters cost on average more than 1/3 of a cent more than automation letters for these two cost pools.
- D. Please confirm that, in its Docket No. R2000-1 Opinion (PRC LR-18) the Commission found that the 1suppf1 and 1suppf4 cost pools combined were found to be .2926 cents for metered letters and .1217 cents for automation letters, indicating a "fixed" difference of .1709 cents. If you cannot confirm, please explain.
- E. In Library Reference USPS LR-J-84, p. 8, your analysis is duplicated using the PRC cost methodology. Please explain why the cost pools for 1suppf1 and 1suppf4 are each zero.

RESPONSE:

- (A) It can be confirmed that when the "1SUPP_F1" and "1SUPP_F4" cost pools are combined, the unit costs for metered letters and automation presort letters are 0.4428 and 0.1024 cents, respectively. (Please see the revisions filed on 11/05/01.)
- (B) It can be confirmed that the cost difference between these two figures is 0.3404 cents. (Please see the revisions filed on 11/05/01.)
- (C) Redirected to witness Smith.
- (D) Redirected to the United States Postal Service.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

MMA/USPS-T22-17 Currently there are several postal requirements that workshare mailers must meet in order to qualify for First-Class automation rates. These requirements include move update requirements, mail piece design requirements, and requirements that mailers obtain USPS approval in advance for any reply envelopes included in their outgoing mail.

- A. In Docket No. R2000-1 did you include any specific credit for First-Class workshare mailers who incurred costs to comply with such USPS requirements? If yes, please quantify this credit and provide references to the applicable portion of the record. If no, please explain why not.
- B. In measuring worksharing cost savings in this case, what credit, if any, did you include? Did you include any specific credit to reflect mailers' compliance with any of these requirements? If yes, please quantify this credit and provide references to the applicable portion of the record. If no, please explain why not.
- C. Please explain why each of these requirements exists and how each of these requirements saves costs for the Postal Service.

RESPONSE:

- (A) (B) No such credits were included in Docket No. R2000-1. In addition, it should be pointed out that the Commission stated the following in the previous docket (PRC Op. R2000-1 at [5092]):

The Commission does not agree with MMA's claim that the savings from inclusion of automation compatible reply envelopes, compliance with Move Update programs, and avoided window service should be considered in setting worksharing discounts.

Therefore, no such credits were included in my cost study in this docket.

- (C) Redirected to the Postal Service.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

MMA/USPS-T22-19 On page 20 of your Direct Testimony, you state that in this case you have "refined" your assumption in Docket No. R2000-1 that the unit delivery cost for BMM letters would be the same as the unit delivery cost for nonautomation presort letters, even though the Commission subsequently employed that same methodology. In this case, you use machinable mixed AADC nonautomation presort letter delivery costs as a proxy for BMM delivery costs.

- A. Please state what impact this change has on your derivation of workshare cost savings and provide support for your calculations.
- B. Please explain why it is necessary to make this change from the Commission's methodology in the last case.
- C. Why didn't the Postal Service estimate a delivery cost for BMM directly?

RESPONSE:

- (A) This change resulted in more accurate worksharing related savings estimates for those rate categories that use BMM letters as a benchmark.
 - (B) In both Docket No. R97-1 and R2000-1, the Postal Service and the Commission used the aggregate delivery unit costs for all nonautomation presort letters as a proxy for the delivery unit costs for BMM letters, largely due to the fact that no better estimates were available at the time. In developing the proposal to expand the definition of the nonstandard surcharge in this docket, the mail processing and delivery unit costs for nonautomation presort letters have been disaggregated by both presort level and machinability. Consequently, more refined data are available. The delivery unit costs are included in the worksharing related savings calculations to reflect the fact that, to varying degrees, different mail categories capture different levels of Delivery Point Sequencing (DPS) savings. The DPS percentages found in the BMM letters cost model
-

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-19 (CONTINUED)

(USPS LR-J-60, page 15) and the nonautomation machinable mixed AADC presort letters cost model (USPS LR-J-60, page 17) are 76.35% and 76.21%, respectively. The DPS percentages are relied upon by witness Schenk in developing the delivery unit cost estimates found in USPS LR-J-117. Given the fact that the two figures cited above are virtually identical, the BMM letters delivery unit cost estimate that has been used in this docket appears reasonable. The aggregate DPS percentage for all nonautomation presort letters is only 43.45% (USPS LR-J-60, page 3), due to the fact that roughly 25% of those mail pieces are nonmachinable. Had the aggregate nonautomation presort letters delivery unit cost been used as a proxy for BMM letters, the DPS delivery savings would have been overstated.

- (C) As stated in my testimony (USPS-T-22, page 19 at 28), the mail processing unit costs for BMM letters are difficult to estimate. The IOCS system does not track costs for BMM letters. This same problem also extends to delivery unit costs; the IOCS system cannot be used to estimate those costs. Consequently, a proxy has been used.
-

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-21 Please refer to the delivery costs that you obtain from Library Reference USPS LR-J-117 in Library Reference USPS LR-J-60, page 1 for First Class and Standard Mail, respectively.

- A. Please confirm that the following table correctly shows the delivery costs that you use in your workshare cost savings analyses for First Class and Standard Mail. If you cannot confirm, please make any corrections.

**Comparison of First-Class and Standard Mail Letter
Delivery Unit Costs (Cents)**

Rate Category	Delivery Costs First-Class	Delivery Costs Standard	Difference (FC-STD)
Nonautomation Letters:			
Nonautomation Presort Letters	5.933	4.368	1.56
Nonautomation Nonmach Mixed ADC	8.408	5.592	2.82
Nonautomation Nonmach ADC	8.408	5.592	2.82
Nonautomation Mach Mixed AADC	4.066	3.847	0.22
Nonautomation Mach AADC	4.066	3.847	0.22
Nonautomation Nonmach 3-Digit	8.408	5.592	2.82
Nonautomation Nonmach 5-Digit	8.408	5.592	2.82
Nonautomation Mach 3-Digit	3.937	3.795	0.14
Nonautomation Mach 5-Digit	3.937	3.795	0.14
Auto Letters:			
Automation Mixed AADC	4.165	3.887	0.28
Automation AADC	4.016	3.827	0.19
Automation 3-Digit	3.980	3.812	0.17
Automation 5-Digit	3.795	3.738	0.06

- B. Please confirm that the average weights for First-Class letters and Standard Mail letters are 0.47 ounces and 0.77 ounces, respectively. See Library Reference USPS LR-J-58.
- C. Please confirm that First-Class and Standard Mail letters are often intermixed during the delivery operation. If you cannot confirm, please explain.
- D. Does the weight of a letter have an impact on the cost of processing the letter in the delivery operation? Please explain your answer.
- E. Does the weight of a letter have any impact on the cost of processing the letter in the mail processing operation? Please explain your answer.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T24-21 (CONTINUED)

- F. Please explain how Standard letters sorted to the same degree as First-Class letters can cost so much less for the delivery operation when they weigh 64% more per piece.

RESPONSE:

- (A) Confirmed.
 - (B) Not confirmed.
 - (C) Confirmed.
 - (D) Redirected to witness Schenk.
 - (E) Redirected to witness Schenk.
 - (F) Redirected to witness Schenk.
-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-28 Please refer to page 20 of your Direct Testimony and page 1 of Library Reference USPS LR-J-60, where you assume that the unit delivery cost for metered letters would be the same as for non-automation, machinable mixed AADC letters.

- A. Is it your understanding that the unit delivery costs as derived in Library Reference USPS LR-J-117 are significantly affected by the number of letters within a given category that are delivered to a post office box? If no, please explain.
- B. What is the relationship between the number of letters delivered to a post office box and the rate category within which a letter is mailed?
- C. What percent of First-Class single piece letters is projected to be delivered to post office boxes in the test year? Please explain the basis for your answer and provide all calculations.
- D. What percent of First-Class metered mail letters is projected to be delivered to post office boxes in the test year? Please explain the basis for your answer and provide all calculations.
- E. What percent of First-Class non-automation machinable AADC letters is projected to be delivered to post office boxes in the test year? Please explain the basis for your answer and provide all calculations.
- F. What percent of First-Class presorted letters is projected to be delivered to post office boxes in the test year? Please explain the basis for your answer and provide all calculations.

RESPONSE:

- (A) No. It is my understanding the delivery unit costs by rate category reflect differences in the amount of mail that is delivery point sequenced.
- (B) I would imagine there is no correlation between the level of presortation and post office box addressing.
- (C) Redirected to the United States Postal Service.
- (D) Redirected to the United States Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-28 (CONTINUED)

(E) Redirected to the United States Postal Service.

(F) Redirected to the United States Postal Service.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-64 Please refer to Part B of interrogatory MMA/USPS-T43-22 where the DPS unit cost to process machinable presorted letters from your mail flow models are provided. Those computations are reproduced in the table below.

**Computation of Unit DPS Costs For Presorted Letter Categories From
USPS Witness Miller Models (Cents)**

Model		Total Pcs Handled (TPH)	Total Cents Per Piece	DPS %	Unit DPS Cost
BMM	Auto 3-Pass	3,205	0.187	75.73%	0.0793
	Auto 2-Pass	13,536	0.594	75.73%	1.0624
	Avg DPS Cost				1.1416
Mach MAADC-AADC	Auto 3-Pass	3,182	0.187	75.17%	0.0793
	Auto 2-Pass	13,436	0.594	75.17%	1.0624
	Avg DPS Cost				1.1416
Mach 3D-5D	Auto 3-Pass	3,276	0.187	77.40%	0.0793
	Auto 2-Pass	13,835	0.594	77.40%	1.0624
	Avg DPS Cost				1.1416
Auto MAADC	Auto 3-Pass	3,122	0.187	73.76%	0.0793
	Auto 2-Pass	13,184	0.594	73.76%	1.0624
	Avg DPS Cost				1.1416
Auto AADC	Auto 3-Pass	3,232	0.187	76.35%	0.0793
	Auto 2-Pass	13,646	0.594	76.35%	1.0624
	Avg DPS Cost				1.1416
Auto 3D	Auto 3-Pass	3,258	0.187	76.98%	0.0793
	Auto 2-Pass	13,759	0.594	76.98%	1.0624
	Avg DPS Cost				1.1416

Source: USPS LR-J-60 (Revised 11/15/01)

Note that Unit DPS Cost = (TPH x Total Cents Per Piece) / DPS % / 10,000

- A. Is the 1.14 cents for each level of presort shown an accurate derivation of unit test year cost for the DPS operation for presorted letters? If not please provide the correct unit test year cost and show all your computations and sources.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-64 (CONTINUED)

- B. Why didn't you offer USPS witness Schenk your derivation of DPS unit costs, enabling her to forego the use of a methodology that indirectly derives DPS unit costs from updated FY 1993 nonDPS cost and volume data?
- C. Below are the DPS unit costs that are derived from two machinable single piece mail flow models that you present in Library Reference USPS LR-J-60. Please confirm that the test year unit DPS cost of 1.14 cents is correct. If not, please provide corrected costs.

**Computation of Unit DPS Costs For Single Piece Letter Categories From
USPS Witness Miller Models (Cents)**

Model		Total Pcs Handled (TPH)	Total Cents Per Piece	DPS %	Unit DPS Cost
BMM	Auto 3-Pass	3,205	0.187	75.73%	0.0793
	Auto 2-Pass	13,536	0.594	75.73%	1.0624
	Avg DPS Cost				1.1416
S.P. Mach	Auto 3-Pass	3,209	0.187	75.81%	0.0793
	Auto 2-Pass	13,550	0.594	75.81%	1.0624
	Avg DPS Cost				1.1416

Source: USPS LR-J-60 (Revised 11/15/01)

Note that Unit DPS Cost = (TPH x Total Cents Per Piece) / DPS % / 10,000

- D. Please confirm that the DPS unit costs is not dependent upon whether a letter is mailed at the single piece or workshare rates and, therefore, should be the same. If you cannot confirm, please explain.
- E. Please confirm that the nonDPS unit cost is not dependent upon a letters is mailed at the single piece or workshare rates and, therefore, should be the same. If you cannot confirm, please explain.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE to MMA/USPS-T22-64:

- (A) It can be confirmed that the "Total Cents Per Piece" figures are accurate. Some of the data contained in the table shown above are not specifically calculated in the cost studies found in USPS LR-J-60. The costs for Delivery Point Sequencing (DPS) processing are calculated using the same productivity figures, regardless of the specific cost model. Consequently, the costs for any mail piece processed in a DPS operation would be identical.
- (B) I provide witness Schenk with the DPS percentages from my cost models because it is my understanding that she uses those percentages to de-average delivery unit costs to reflect various levels of carrier casing savings related to DPS processing.
- (C) Please see the response to MMA/USPS-T22-64(A).
- (D) This can be confirmed if the mail characteristics for a given single-piece letter and presort letter are identical.
- (E) This can be confirmed if the mail characteristics for a given single-piece letter and presort letter are identical.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T22-1 Please refer to the responses to OCA/USPS-174(a), OCA/USPS-176(a), and USPS-LR-J-60 at pages 46 and 81. In the response to OCA/USPS-174(a), the Postal Service states that it "seems intuitive" that there is a correlation between weight and thickness of mailpieces. In the response to OCA/USPS-176(a), the Postal Service states that experience reveals that thicker pieces tend to jam automated mail processing equipment more frequently, causing negative impacts on throughput and productivity.

- a. Please confirm that 78.5 percent, 16.9 percent and 3.6 percent of Standard Mail letter-shaped pieces weigh between 0 to 1, >1 to 2, and >2 to 3 ounces, respectively. If you do not confirm, please explain.
- b. Please confirm that 94.9 percent, 4.1 percent and 0.7 percent of single-piece First-Class Mail letter-shaped pieces weigh between 0 to 1, >1 to 2, and >2 to 3 ounces, respectively. If you do not confirm, please explain.
- c. Please confirm that Standard Mail letter-shaped pieces have a greater average weight per piece in the 0 to 3 ounce weight range than single-piece First-Class letter-shaped pieces. If you do not confirm, please explain.
- d. Please confirm that the marginal volume variable productivities for Standard Mail letter-shaped pieces should be judgmentally reduced to reflect the negative impact on the productivities caused by the greater average weight of Standard Mail letter-shaped pieces in the 0 to 3 ounce weight range. If you do not confirm, please explain.

RESPONSE:

- (a) This can be confirmed for First-Class Mail single-piece letter-shaped mail pieces as shown in USPS LR-J-58.
 - (b) This can be confirmed for Standard Mail non-ECR letter-shaped mail pieces as shown in USPS LR-J-58.
 - (c) This can be confirmed as shown in USPS LR-J-58.
 - (d) The letter and card productivities used in the models are "average" productivities. If these figures were de-averaged, then adjustments would have to be made for all letters and cards. In other words, separate productivities would have to be estimated for First-Class single-piece letters, First-Class presort letters, First-Class single-piece cards, First-Class presort cards, and Standard Mail presort letters. I have not studied this issue and do not know how such an analysis could be performed.
-

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T22-2 Please refer to USPS-LR-J-60 (revised 11-15-01), File: fcmrev2.xls, Sheet: NONAUTO LTR DEAVG. In cells E18 – E25, the first figure in the formula in each cell is 3748977. Please provide a citation for this figure, and show all calculations used in its derivation.

RESPONSE:

This figure represents the RPW volume of First-Class nonautomation presort letter-shaped mail pieces in Fiscal Year 2000. Please see USPS LR-J-112. The volume itself does not actually affect the cost model results; the volume distribution percentages affect the cost model results. These percentages are calculated using the mail characteristics data. Consequently, the results would be the same, regardless of the specific volume figure that is used.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T22-3 Please refer to USPS-LR-J-60 (revised 11-15-01), File: fcmrev2.xls, Sheet: MACH SP COSTS, Column (1). Please confirm that the average number of sorts per piece for "First-Class Mail Single-Piece Machinable Letters" is 4.4207 (the sum of all figures Column (1) divided by 10,000). If you do not confirm, please provide the average number of sorts per piece and show all calculations. Also, please provide the average number of sorts per piece for all First-Class Single-Piece, First-Class Presort, and Standard Regular cost models. If you cannot provide the average number of sorts per piece, please rank the First-Class Single-Piece, First-Class Presort, and Standard Regular from highest to lowest in terms of the average number of sorts per piece.

RESPONSE:

Confirmed, although I did not require these calculations to complete my analysis.

First-Class single-piece cost models are not included in USPS LR-J-60, other than the cost study related to Qualified Business Reply Mail (QBRM). The calculation described above can be used for all cost sheets found in USPS LR-J-60.

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T22-4 Please refer to USPS-LR-J-60 (revised 11-15-01). Please provide the entry profile for single-piece First-Class letters.

- a. Please provide the entry profile for single-piece First-Class letters.
- b. Please provide the mail flow densities for single-piece First-Class letters.
- c. Please explain how the relevant cost models account for residual First-Class presort letters.
- d. Please provide the mail flow densities for residual First-Class presort letters.

RESPONSE:

- (a) To the best of my knowledge, a mail characteristics study pertaining to First-Class single-piece letters has not been conducted. Consequently, these data are not available.
- (b) To the best of my knowledge, current data are not available. However, an estimate for single-piece densities was calculated for use in my Docket No. R97-1 rebuttal testimony. Please see Docket No. R97-1, Exhibit USPS-RT-17F, page 8.
- (c) I am not familiar with the term "residual" as it pertains to First-Class presort letters.
- (d) Please see the response to OCA/USPS-T22-4(d).

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Miller?

3 (No response.)

4 MR. HART: Excuse me, Your Honor. Henry Hart
5 representing the National Association of Pre-Sort Mailers.

6 I haven't seen a list of the interrogatories that
7 were designated. I just want to make sure that those that
8 we designated got into the record. I don't believe I have
9 any extra ones. Is there a list?

10 CHAIRMAN OMAS: Is there a list?

11 Would you please identify yourself for the record?

12 MR. HART: I'm sorry. Henry Hart representing the
13 National Association of Pre-Sort Mailers.

14 CHAIRMAN OMAS: Thank you.

15 (Pause.)

16 MR. HART: Thank you. I don't have any additional
17 written cross-examination.

18 CHAIRMAN OMAS: Thank you, Mr. Hart.

19 This brings us to oral cross-examination. Two
20 parties have requested oral cross-examination, the American
21 Bankers Association and the National Association of Pre-Sort
22 Mailers and the American Postal Workers Union.

23 Is there any other parties who wish to cross-
24 examination Witness Miller?

25 (No response.)

1 CHAIRMAN OMAS: Mr. Hart, would you please?

2 MR. HART: Again, Mr. Chairman, Henry Hart
3 representing the National Association of Pre-Sort Mailers
4 who filed the joint designation with the American Bankers
5 Association.

6 We have no oral cross-examination this morning of
7 Mr. Miller, although we would reserve the right to conduct
8 oral cross-examination in response to any cross-examination
9 made by other parties.

10 CHAIRMAN OMAS: All right. Thank you, Mr. Hart.
11 The American Postal Workers Union, Ms. Catler?

12 MS. CATLER: My name is Susan Catler, attorney for
13 the American Postal Workers Union.

14 CROSS-EXAMINATION

15 BY MS. CATLER:

16 Q Good morning, Mr. Miller.

17 A Good morning.

18 Q Mr. Miller, the Postal Rate Commission has
19 indicated that it believes that work sharing discounts
20 should reflect the cost avoided by the Postal Service.

21 You would agree, wouldn't you, that the three and
22 five digit automation discounts originally proposed by the
23 Postal Service in R2001-1 would exceed cost avoidance?

24 A Is this in reference to my testimony or in some
25 interrogatory somewhere?

1 Q I believe that you have provided the cost avoided
2 figures in your exhibit or, excuse me, in your Library
3 Reference J-60.

4 A Are you referring to a specific page --

5 Q No.

6 A -- in the library reference?

7 Q Page 1.

8 A I'm sorry. Could you repeat the question?

9 Q Would you agree that the three and five digit
10 automation discounts originally proposed by the Postal
11 Service in R2001-1 would exceed cost avoidance?

12 A Actually, my testimony doesn't cover the specific
13 rates, and I'm not sure off the top of my head what those
14 rate proposals were. The costs that are found on page 1 of
15 USPS-LR-J-60 are the cost avoidance that I calculated in my
16 testimony.

17 Q In your direct testimony and in the answers
18 specifically to the interrogatories of the Major Mailers
19 Association you state and expand on your opinion that there
20 is an overstatement in work sharing related savings
21 estimates as you have calculated them.

22 MR. TIDWELL: Counsel, can we have a specific cite
23 to an MMA interrogatory?

24 MS. CATLER: I don't have that.

25 MR. TIDWELL: Because there are some

1 interrogatories that have been designated and some that
2 haven't. I think it makes a significant difference for
3 these proceedings.

4 MS. CATLER: I don't have a cite in front of me.
5 I believe it's in the --

6 CHAIRMAN OMAS: Can we see if the witness can
7 answer? Mr. Miller?

8 THE WITNESS: Could you repeat the question,
9 please?

10 MS. CATLER: Right.

11 BY MS. CATLER:

12 Q You state in your direct testimony and in the
13 answers specifically to the interrogatories of the Major
14 Mailers Association you state and then expand on your
15 opinion that there is an overstatement in work sharing
16 related sharing estimates as you have calculated them.

17 You state that this is because there are costs
18 included in the CRA costs for BMM, bulk metered mail,
19 letters which are used in the cost avoidance calculations
20 that do not apply to the BMM letters which are used in the
21 cost avoidance calculations. However, those costs are being
22 used in the benchmark for the cost avoidance calculations.

23 Is that a fair summary of your view? I guess I'm
24 actually referring to Major Mailers Interrogatory T-10,
25 subpart B. In your direct testimony, I believe this is on

1 page 20, lines 6 through 17.

2 MR. TIDWELL: Here again, Mr. Chairman, the Postal
3 Service would like to make clear for the record that MMA-10
4 was not designated into the record.

5 MS. CATLER: Well, the direct testimony at page
6 20, lines 6 through 17, is in the record.

7 THE WITNESS: In my testimony on page 20 at lines
8 16 to 18 I state, "As a result, the mail processing unit
9 costs and work sharing related savings that are calculated
10 using the BMM letters proxy as a benchmark may be somewhat
11 overstated."

12 MS. CATLER: Thank you.

13 BY MS. CATLER:

14 Q If the work sharing related savings are likely
15 overstated, is there any justification based on your cost
16 avoidance analysis for further increasing the discounts on
17 three digit and five digit automated first class letters by
18 another two-tenths of a cent as is put forward in the
19 settlement agreement?

20 MR. TIDWELL: Mr. Chairman, the Postal Service is
21 going to object to this question being directed to this
22 witness. This is clearly a rate design issue that ought to
23 properly be directed to the Postal Service's rate design
24 witness who will be testifying after him.

25 CHAIRMAN OMAS: Can you answer that question, Mr.

1 Miller?

2 THE WITNESS: That question is outside the scope
3 of my testimony. I don't deal with rate design in my
4 testimony.

5 MS. CATLER: That's okay. Thank you.

6 CHAIRMAN OMAS: Thank you.

7 BY MS. CATLER:

8 Q Given your assertion that you believe that work
9 sharing cost savings you have calculated are overstated, do
10 you believe that there are types of mail that are currently
11 being discounted for which there is no justification for
12 receiving a discount based on cost avoided calculations? If
13 so, what types of mail would you put in that category?

14 A Well, first of all, as I stated in the citation I
15 made from my testimony, I said the costs may be somewhat
16 overstated. I didn't say they were overstated. Second, I
17 think that again deals with rate design, which is outside
18 the scope of my testimony.

19 Q Okay. Thank you. The cost models show that there
20 should be virtually no cost differential for the work
21 sharing proportional processing cost between the benchmark
22 letter, the BMM, and the new automation mix AADC category
23 the Postal Service is proposing.

24 Does this imply that the basis for providing a
25 discount for the new classification is based on the

1 differences between the BMM and automation fixed work
2 sharing costs only? If so, have you studied the fixed work
3 sharing costs to determine if they appropriately apply to
4 the automation mix AADC mail?

5 MR. TIDWELL: Mr. Chairman, the Postal Service is
6 going to object to the first half of that question. It goes
7 into rate design again. The second half seems appropriately
8 directed to this witness, however.

9 MS. CATLER: I request that he answer the second
10 half. Thank you.

11 CHAIRMAN OMAS: Could you answer the second half?

12 THE WITNESS: Could you repeat the second half of
13 the question?

14 BY MS. CATLER:

15 Q Have you studied the fixed work sharing costs to
16 determine if they appropriately apply to the automation
17 mixed AADC mail?

18 A I'm not sure I'm completely following this
19 question, but if you're referring to the work sharing
20 related fixed cost pools, those cost pools contain the costs
21 for tasks that are related to work sharing but were not
22 modeled, so I haven't really conducted any in-depth studies
23 to analyze the cost for those tasks.

24 Q Do you know if anyone else has?

25 A To the best of my knowledge, I don't think anyone

1 has.

2 Q If the difference in the work share variable costs
3 for DMM and automation mix AADC is substantially larger than
4 the models indicate, do you attribute that mainly to the
5 problems of having cost included in the CRA costs being used
6 for the benchmark that are for types of mail other than the
7 benchmark type of mail?

8 A Again I'm not sure I'm following that question. I
9 think you were stating that if the work share related
10 savings estimates were greater than those I calculated, and
11 I think based on what I said about the cost for BMM letters
12 may be somewhat overstated it would probably be that the
13 savings would be smaller.

14 Q Thank you. You calculated the Library Reference
15 J-60, the one that calculates the first class mail pre-sort
16 cost avoidance using the Postal Service's methodology. Did
17 you also calculate the library reference that calculates
18 this using the Postal Rate Commission's version of the cost
19 avoidance methodology?

20 A I'm not sponsoring that as a library reference,
21 but given that I was the one that developed those cost
22 models I was the one that also input the data for the Postal
23 Rate Commission cost models, but it's not a library
24 reference I'm sponsoring as part of my testimony.

25 MS. CATLER: Is there anyone who is sponsoring

1 this library reference?

2 MR. TIDWELL: No, no one from the Postal Service.

3 MS. CATLER: Well, I'm going to ask you a few
4 questions about it because you did the calculations.

5 MR. TIDWELL: I'll wait for the questions.

6 MS. CATLER: Thank you.

7 THE WITNESS: Actually, before you begin, I don't
8 have that library reference with me either if it requires
9 looking at specific pages.

10 MS. CATLER: I don't think this will require you
11 to look at specific pages.

12 BY MS. CATLER:

13 Q Can you briefly explain the differences in the
14 assumptions that underlie the first class letter cost
15 avoided calculations supporting your testimony as presented
16 in Library Reference 60 and the similar cost avoided
17 calculations presented in the library reference that
18 represents the Postal Rate Commission's methodology?

19 A Basically, the difference is that some of the data
20 inputs changed. These inputs were obtained from other
21 witnesses. For example, the CRA mail processing unit cost
22 estimates changed, the piggyback factors changed, and the
23 premium paid factors changed. I basically input the new
24 data into my cost models, and that's what is in that library
25 reference.

1 Q Are you saying it is more up-to-date data in the
2 PRC version of the thing or different data?

3 A It's different data having to do with the Postal
4 Service's volume variability methodology, which differs from
5 that used by the Postal Rate Commission in past dockets.

6 Q Can you explain how the volume variability
7 calculation differs between the two?

8 A That's outside the scope of my testimony. There
9 are other witnesses that calculate that information.

10 Q I'm talking about the calculations that you did
11 for the Library Reference J-60 and the one --

12 MR. TIDWELL: This witness doesn't calculate the
13 volume variabilities. They're input into J-60.

14 There are other witnesses who calculate volume
15 variabilities for the Postal Service. I am clueless as to
16 whether or not they have appeared or are scheduled to
17 appear, but this is an area that is outside the scope of
18 this witness' testimony.

19 BY MS. CATLER:

20 Q What I'm trying to find out, though, is in what
21 ways the two calculations that you performed differed.

22 A Basically I took inputs from a group of witnesses.
23 For example, Witness Smith had calculated the CRA mail
24 processing unit cost estimates. I took these various inputs
25 and put them into my cost models, and that's what is in

1 USPS-LR-J-60.

2 For the PRC version I got different inputs from
3 those witnesses and simply input those in the cost models,
4 and that's what is in USPS-LR-J-84.

5 Q And what I'm trying to find out is how the inputs
6 differ, the ones you put in in one version versus the other
7 version.

8 MR. TIDWELL: And again the Postal Service will
9 object because, as the witness has explained, those inputs
10 were developed by other witnesses for J-60, and there are no
11 Postal Service witnesses who are sponsoring any testimony
12 relating to the inputs that go into J-84, including this
13 witness.

14 If we're looking to explore the differences
15 between the Postal Service's volume variability methodology
16 and the Commission's, we are well outside the scope of this
17 witness' testimony.

18 MS. CATLER: I don't believe that's what I'm
19 asking.

20 CHAIRMAN OMAS: Mr. Miller, can you identify the
21 numbers that are different?

22 THE WITNESS: Basically the inputs I talked about
23 are the ones that were changed. I don't have USPS-LR-J-84
24 with me.

25 The extent to which the Postal Rate Commission

1 version differs from the USPS version, I'm not completely
2 familiar with the details of how those calculations are
3 performed. I couldn't answer those questions about why they
4 differ.

5 MS. CATLER: Okay. Thank you. Thank you very
6 much. I have no further questions at this point.

7 CHAIRMAN OMAS: Thank you very much.

8 Is there any other follow up cross-examination of
9 Witness Miller?

10 (No response.)

11 CHAIRMAN OMAS: Are there any questions from the
12 bench?

13 (No response.)

14 CHAIRMAN OMAS: Mr. Tidwell, would you like some
15 time with your witness to review?

16 MR. TIDWELL: No, thank you, Mr. Chairman. There
17 won't be any redirect.

18 CHAIRMAN OMAS: All right. Thank you. Mr.
19 Miller, that completes your testimony here today. We
20 appreciate your appearance and your contribution to our
21 record. Thank you. You are now excused.

22 (Witness excused.)

23 CHAIRMAN OMAS: Mr. Tidwell, will you call the
24 final Postal Service witness of the day?

25 MR. TIDWELL: The Postal Service calls Maura

1 Robinson to the stand.

2 Whereupon,

3 MAURA ROBINSON

4 having been duly sworn, was called as a witness
5 and was examined and testified as follows:

6 CHAIRMAN OMAS: Please be seated.

7 (The document referred to was
8 marked for identification as
9 Exhibit No. USPS-T-29.)

10 DIRECT EXAMINATION

11 BY MR. TIDWELL:

12 Q Mr. Robinson, on the table before you are two
13 copies of a document entitled Direct Testimony of Maura
14 Robinson on behalf of the United States Postal Service. It
15 has been designated for purposes of this proceeding as
16 USPS-T-29.

17 Was that document prepared by you or under your
18 supervision?

19 A Yes, it was.

20 Q If you were to provide the contents of that
21 document as your oral direct testimony today, would it be
22 the same?

23 A Yes, it would.

24 Q That document contains errata that were filed
25 yesterday, two relatively minor errata. I was wondering.

1 It might be worthwhile to have you read them into the
2 record.

3 The document also contains a paragraph addendum
4 that was added to page 30 of your testimony. After you read
5 the errata, it might be useful for you to characterize the
6 nature of the addendum.

7 A The errata filed yesterday on January 8, 2002, on
8 page 5, line 1, "The average annual rate of 3.2 percent," is
9 the correct cite. On page 10 in footnote 6, the footnote
10 should read, "The unique circumstances surrounding Docket
11 No. R2000-1 resulted in a decrease in the five digit
12 automation letter discount," rather than rate, "in July,
13 2001."

14 The last errata was an additional paragraph on
15 page 30, which is captioned Section 5, Subsequent Cost
16 Revisions, and summarizes the impact on the pass throughs as
17 a result of the errata filed by Witness Miller.

18 Q Your testimony also refers to two Category II
19 library references, J-102 and J-130. Those library
20 references were prepared by you for purposes of this
21 proceeding?

22 A Yes.

23 Q And you are prepared to sponsor them today as part
24 of your testimony?

25 A Yes, I am.

1 MR. TIDWELL: Mr. Chairman, the Postal Service,
2 therefore, moves that the direct testimony of Witness
3 Robinson and the aforementioned library references be
4 entered into the record as her testimony in this proceeding.

5 CHAIRMAN OMAS: Is there any objection?

6 (No response.)

7 CHAIRMAN OMAS: Hearing none, I will direct
8 counsel to provide the reporter with two copies of the
9 corrected testimony of Maura Robinson. The testimony is
10 received into evidence. However, as is our practice, it is
11 not transcribed.

12 (The document referred to,
13 previously identified as
14 Exhibit No. USPS-T-29, was
15 received in evidence.)

16 CHAIRMAN OMAS: Ms. Robinson, have you had an
17 opportunity to examine the packet of designated written
18 cross-examination that was made available to you in the
19 hearing room this morning?

20 THE WITNESS: Yes, I have.

21 CHAIRMAN OMAS: If the questions contained in that
22 packet were posed to you orally today, would your answers be
23 the same as those you provided previously in writing?

24 THE WITNESS: Yes, they would.

25 CHAIRMAN OMAS: Are there any corrections or

1 additions you would like to make at this point to those
2 answers?

3 THE WITNESS: No, there are not.

4 CHAIRMAN OMAS: Counsel, would you please provide
5 two copies of the corrected designated written cross-
6 examination of Witness Robinson to the reporter? That
7 material is received into evidence, and it will be
8 transcribed into the record.

9 (The document referred to,
10 previously identified as
11 Exhibit No. USPS-T-29, was
12 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MAURA ROBINSON
(USPS-T-29)

Party

Interrogatories

American Bankers Association and
National Association of Presort
Mailers

ABA&NAPM/USPS-T29-1-3, 7e, 11-12, 16-19, 21,
23-24, 26a, 28, 32

GCA/USPS-T29-6

Greeting Card Association

GCA/USPS-T29-1-15, 17-24, 25a, c, 26-36, 37a

Newspaper Association of America

ABA&NAPM/USPS-T29-30
MMA/USPS-T29-3

Office of the Consumer Advocate

ABA&NAPM/USPS-T29-1-6, 7e, 8-12, 14, 16-24,
26a, 28, 29b, 30-33
MMA/USPS-T29-1-6, 8-13, 15-16, 17a-c, e, 18-21
OCA/USPS-T29-1-6
OCA/USPS-2c-d, 3, 86b-k, 87-88 redirected to T29

OCA/USPS-T39-4c redirected to T29

POIR No. 1

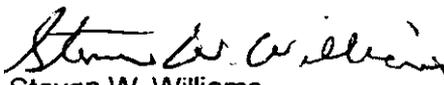
POIR No. 4, Question 6, 9b, and 10

POIR No. 6, Question 12

Val-Pak Direct Marketing Systems,
Inc. and Val-Pak Dealers' Association
Inc.

MMA/USPS-T29-12-13

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
 UNITED STATES POSTAL SERVICE
 WITNESS MAURA ROBINSON (T-29)
 DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
ABA&NAPM/USPS-T29-1	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-2	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-3	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-4	OCA
ABA&NAPM/USPS-T29-5	OCA
ABA&NAPM/USPS-T29-6	OCA
ABA&NAPM/USPS-T29-7e	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-8	OCA
ABA&NAPM/USPS-T29-9	OCA
ABA&NAPM/USPS-T29-10	OCA
ABA&NAPM/USPS-T29-11	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-12	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-14	OCA
ABA&NAPM/USPS-T29-16	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-17	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-18	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-19	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-20	OCA
ABA&NAPM/USPS-T29-21	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-22	OCA
ABA&NAPM/USPS-T29-23	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-24	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-26a	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-28	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-29b	OCA
ABA&NAPM/USPS-T29-30	NAA, OCA
ABA&NAPM/USPS-T29-31	OCA
ABA&NAPM/USPS-T29-32	ABA&NAPM, OCA
ABA&NAPM/USPS-T29-33	OCA
GCA/USPS-T29-1	GCA
GCA/USPS-T29-2	GCA
GCA/USPS-T29-3	GCA
GCA/USPS-T29-4	GCA

GCA/USPS-T29-5	GCA
GCA/USPS-T29-6	ABA&NAPM, GCA
GCA/USPS-T29-7	GCA
GCA/USPS-T29-8	GCA
GCA/USPS-T29-9	GCA
GCA/USPS-T29-10	GCA
GCA/USPS-T29-11	GCA
GCA/USPS-T29-12	GCA
GCA/USPS-T29-13	GCA
GCA/USPS-T29-14	GCA
GCA/USPS-T29-15	GCA
GCA/USPS-T29-17	GCA
GCA/USPS-T29-18	GCA
GCA/USPS-T29-19	GCA
GCA/USPS-T29-20	GCA
GCA/USPS-T29-21	GCA
GCA/USPS-T29-22	GCA
GCA/USPS-T29-23	GCA
GCA/USPS-T29-24	GCA
GCA/USPS-T29-25a	GCA
GCA/USPS-T29-25c	GCA
GCA/USPS-T29-26	GCA
GCA/USPS-T29-27	GCA
GCA/USPS-T29-28	GCA
GCA/USPS-T29-29	GCA
GCA/USPS-T29-30	GCA
GCA/USPS-T29-31	GCA
GCA/USPS-T29-32	GCA
GCA/USPS-T29-33	GCA
GCA/USPS-T29-34	GCA
GCA/USPS-T29-35	GCA
GCA/USPS-T29-36	GCA
GCA/USPS-T29-37a	GCA
MMA/USPS-T29-1	OCA
MMA/USPS-T29-2	OCA
MMA/USPS-T29-3	NAA, OCA
MMA/USPS-T29-4	OCA
MMA/USPS-T29-5	OCA
MMA/USPS-T29-6	OCA

MMA/USPS-T29-8	OCA
MMA/USPS-T29-9	OCA
MMA/USPS-T29-10	OCA
MMA/USPS-T29-11	OCA
MMA/USPS-T29-12	OCA, Val-Pak
MMA/USPS-T29-13	OCA, Val-Pak
MMA/USPS-T29-15	OCA
MMA/USPS-T29-16	OCA
MMA/USPS-T29-17a	OCA
MMA/USPS-T29-17b	OCA
MMA/USPS-T29-17c	OCA
MMA/USPS-T29-17e	OCA
MMA/USPS-T29-18	OCA
MMA/USPS-T29-19	OCA
MMA/USPS-T29-20	OCA
MMA/USPS-T29-21	OCA
OCA/USPS-T29-1	OCA
OCA/USPS-T29-2	OCA
OCA/USPS-T29-3	OCA
OCA/USPS-T29-4	OCA
OCA/USPS-T29-5	OCA
OCA/USPS-T29-6	OCA
OCA/USPS-2c redirected to T29	OCA
OCA/USPS-2d redirected to T29	OCA
OCA/USPS-3 redirected to T29	OCA
OCA/USPS-86b redirected to T29	OCA
OCA/USPS-86c redirected to T29	OCA
OCA/USPS-86d redirected to T29	OCA
OCA/USPS-86e redirected to T29	OCA
OCA/USPS-86f redirected to T29	OCA
OCA/USPS-86g redirected to T29	OCA
OCA/USPS-86h redirected to T29	OCA
OCA/USPS-86i redirected to T29	OCA
OCA/USPS-86j redirected to T29	OCA
OCA/USPS-86k redirected to T29	OCA
OCA/USPS-87 redirected to T29	OCA
OCA/USPS-88 redirected to T29	OCA
OCA/USPS-T39-4c redirected to T29	OCA
POIR No. 1	OCA

POIR No. 4, Question 6, 9b, and 10

OCA

POIR No. 6, Question 12

OCA

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ABA&NAPM/USPS-T29-1. Please confirm that the Postal Service's proposed rate increases for FCM workshared letters are as follows:

Basic automation:

Mixed AADC letters	+2.9 cents	10%
AADC letters	+2.1 cents	8%
Auto 3-digit letters	+2.5 cents	9%
Auto 5-digit letters	+2.5 cents	10%
Auto carrier route	+3 cents	12%

RESPONSE:

Confirmed. See my response to MMA/USPS-T29-16N.

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ABA&NAPM/USPS-T29-2

- a. In your testimony, you state that the proposed discounts exceed the cost avoidance measured by USPS witness Miller in this case. Is this the only rate case in which the Postal Service has proposed discounts in excess of calculated avoided costs? Please cite all past cases if your answer is in the negative.
- b. Why have you proposed discounts in excess of Postal Service measured cost avoidance in this case? Is it in part because your rate increases are so large, you fear a disruption of mail volume if the discounts are not increased?

RESPONSE:

- a. No. For two examples, see the response to MMA/USPS-T29-2A.
- b. See my testimony, USPS-T-29 at 11-13 and 20-22. While I recognize increasing rates generally reduces the quantity demanded for a product, I would not expect "a disruption of mail volume" due to the proposed rate increases.

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ABA&NAPM/USPS-T29-3. On page 10, lines 1-6, of your testimony, you state that discounts should be set and are set so that there is an incentive for entry by the private sector into mail processing only if they can do the work more cheaply than the Postal Service. Assume as a hypothetical that the fully loaded direct labor cost structure of mail processing labor for the Postal Service is \$30.44/hr before premium pay adjustments, and assume that the corresponding labor cost for mail processing labor in the private sector is \$12.00/hr. Further, assume that capital costs (buildings and equipment) are identical, and that there are no other mail processing costs.

- a. Under such circumstances, should the Postal Service be in the letter mail processing business for FCM at all?
- b. If the circumstances were reversed, would the private sector be in the mail processing business at all?
- c. If mail processing were a fully separable activity with its own market price, instead of a discount from an integrated activities Postal Service as at present, would the USPS be in the mail processing business under the above cost structure?
- d. Were it not for access to the Postal Service's monopoly universal delivery system, do you believe presort bureaus and major mailers would continue to do business with the USPS given the current structure of discounts?

RESPONSE:

To clarify, the cited portion of my testimony reads: "Setting discounts to compensate mailers only for the costs avoided by the Postal Service provides bulk mailers an incentive to presort or apply a barcode only if they can do so a lower cost than the Postal Service." USPS-T29 at 10.

- a. Yes, the mission of the Postal Service has been defined to include origin-to-destination mail service including mail processing, transportation and delivery.

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- b. While I have not studied this question, it would seem that there are some circumstances where a higher-cost provider could successfully provide a product in the marketplace.
- c. While I have not studied this hypothetical, I believe it is likely that the Postal Service would be in the mail processing business if mail processing were a fully separable activity with its own market price.
- d. I have interpreted this question to assume the hypothetical case where other providers have delivery systems in competition with the Postal Service. Yes, while I have not studied this hypothetical, I believe it is likely that presort bureaus and major mailers would continue to do business with the Postal Service.

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ABA&NAPM/USPS-T29-4. Assume the cost structure set forth above in ABA&NAPM/USPS-T29-3. Suppose worksharing discounts were set not to the levels of the avoided costs of the Postal Service, but to the larger social gains from the private sector performing that work.

- a. Please confirm that from a resource allocation standpoint, such discounts would be superior on efficiency grounds than the way discounts are currently set, namely to the avoided costs of the Postal Service.
- b. Please confirm that the loss to the Postal Service would be less than the social welfare gains to consumers under such a reallocation of resources.

RESPONSE:

- a. -b. Not confirmed. I do not understand what "larger social gains" you are referring to.

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ABA&NAPM/USPS-T29-5. Please confirm that without your added discount of 0.5 cents for FCM workshared letters, every rate increase proposed in this case for workshared letters would be three cents or more except for AADC letters.

RESPONSE:

Not confirmed. The proposed discounts for Nonautomation Presort and Automation Carrier Route Letters equal the current discounts. A determination that an alternate set of discounts for workshared Letters should be proposed would require a complete reassessment of the First-Class Mail Letters and Sealed Parcels subclass rates; this would not necessarily result in a rate structure where "every rate increase . . . for workshared letters would be three cents or more except for AADC letters."

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ABA&NAPM/USPS-T29-6. On page 5, lines 20-22, you assert the Postal Service's goal of increasing the automation compatibility of letter shaped FCM has been accomplished through the design of the rate structure. Witness Miller emphasizes that those cost reduction efforts have been targeted largely toward the non-prebarcoded single piece mailstream (USPS-T-22, revised, p. 4, lines 3-14). Please explain how the rate design for single piece mail has caused an increase in automation compatibility.

RESPONSE:

My statement (USPS-T-29 at 5) that:

the Postal Service's goal of increasing the automation compatibility of First-Class Mail (particularly of letter-shaped pieces) has been implemented largely through the rate structure

refers to the use of rate design to create incentives for mailers to barcode, presort and prepare letter-shaped mail in order to qualify for worksharing discounts. These incentives have been a major factor in the growth of First-Class Mail workshared Letters through the 1990s. Much of this growth has been from mailers choosing to barcode, presort and prepare mail in response to the worksharing discounts offered by the Postal Service.

The Qualified Business Reply Mail postage discount provides an incentive for bulk recipients to prepare business reply envelopes in a format that is automation compatible. The proposed Nonmachinable Surcharge (and, to a lesser degree, the current Nonstandard Surcharge) also are structured to encourage single-piece as well as presort mailers to prepare mailpieces that are automation compatible. In addition, through

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its mail preparation requirements, the Postal Service requires any reply envelopes or cards enclosed in an automation rate mailing to be automation compatible, including having a Facing Identification Mark (FIM) and barcode.

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ABA&NAPM/USPS-T29-7

- a. Do you agree that in the history of worksharing discounts for FCM letters, there have been (at least) three distinct philosophies for what constitutes the benchmark you refer to starting at page 9, line 15 of your testimony? Namely, the Commission's "Appendix F" method based on cost differences between actual mailstreams, single piece and presort; the Postal Service's "identical piece" method based on comparisons between a hypothetical construct and an actual piece of mail, a mailpiece identical in every respect to a presort letter except for the presort versus a presorted letter; and finally the "most likely conversion" method based on comparisons between bulk and metered mail and prebarcoded/presorted letters.
- b. Would you agree that the Commission's Appendix F methodology generally provided a basis for larger discounts than the Postal Service's identical piece methodology?
- c. Would you agree that the Commission's 100% volume variability methodology generally provides a basis for larger discounts than the Postal Service's less-than-100% volume variability methodology, albeit using the same benchmark?
- d. Please see the Postal Service response to interrogatory ABA & NAPM/USPS-T22-4 where the Postal Service calculated cost avoidance for automated FCLM mixed AADC (7.835 cents), AADC (8.918 cents), 3-Digit (9.280 cents) and 5-Digit (10.552 cents), using the PRC methodology of R2000-1, including the use of non-automated presort as proxy for bulk metered mail to calculate delivery costs. Compare these cost avoidance findings to those found by the Commission in R2000-1 using this methodology [(see page 243 of PRC Rec. Dec. and Op. in R2000-1: automated FCLM Basic (6.2 cents), 3-Digit (7.3 cents) and 5-Digit (8.7 cents)]. Please confirm that under this apples-to-apples comparison, automated FCLM workshare savings have increased from R2000-1 to R2001-1. Please confirm that the above-listed PRC version-derived cost avoidance figures for R2001-1 exceed the discounts which you have proposed for automated FCLM mixed AADC, AADC, 3-Digit and 5-Digit.
- e. When the limits of converting further mail to worksharing are approached in FCM, as they may be now, does it make any sense to use as a benchmark for setting discounts a philosophy which has as its rationale that it comes closest to being candidate mail for further conversion? Wouldn't it make more sense, to set discounts which would grow the volume of that mailstream directly, rather than through conversion mail?

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RESPONSE:

- a. Redirected to witness Miller.
- b. Redirected to witness Miller.
- c. Redirected to witness Miller.
- d. Redirected to the Postal Service.
- e. Your question requires me to assume that "the limits of converting further mail to worksharing are approached in FCM." While there has been a significant conversion of mail from single-piece to workshare in the last ten years, I believe that there is still mail that can be converted from single-piece to worksharing. The Postal Service (and the Postal Rate Commission) currently set discounts based on the estimated cost avoidances to the Postal Service if a mailer 'workshares' or performs mail processing activities that would otherwise be performed by the Postal Service. This is a reasonable approach designed to minimize the combined costs of the Postal Service and the mailer. It was not my intent in designing First-Class Mail rates to "grow the volume of [workshared First-Class Mail.]" My intent was to design First-Class Mail rates that met the various statutory requirements and policy goals.

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ABA&NAPM/USPS-T29-8

- a. If FCM workshared letter mail were a distinct subclass within FCM, please confirm it would make no sense to have a BMM or any other benchmark for setting workshared rates.
- b. If the situation posited in a. were true, please confirm that it would not hinder any further conversion of candidate-worksharing mail from converting.
- c. Please confirm if the situation posited in b. were true, it might further encourage conversion to worksharing if true cost based (i.e., bottom-up) rates were lower than discount based (i.e., top-down) rates.

RESPONSE:

- a. Not confirmed. First-Class Mail workshared letter mail is not a distinct subclass within First-Class Mail. I am unaware of any Postal Service study that has evaluated whether or not bulk metered mail or any other benchmark, reference point, or other point of comparison would be appropriate to use in setting workshare First-Class Mail letter rates under this hypothetical.
- b. Not confirmed. I have not studied the conversion of mail to workshare First-Class Mail under this hypothetical.
- c. Not confirmed. I am unaware of any study that compares "bottom up" and "top down" rates for First-Class Mail under this hypothetical.

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ABA&NAPM/USPS-T29-9. On page 11, lines 11 - 12 of your testimony, what do you mean by the phrase "reduced overall operating costs for mailers"? Do you mean USPS is responsible for the operating costs of private sector mail processing operations and changes therein? Do you mean that rates paid by major mailers in FCM have gone down since the advent of the automation era in mail processing?

RESPONSE:

The "overall operating costs by for mailers" in my testimony refers to the combined cost of mail preparation and postage. One reason mailers participate in the workshare program is to reduce their combined cost of mail preparation and postage as compared to the costs that would be incurred if they mailed at the single-piece rates.

I do not believe that the Postal Service is responsible for the operating costs of private sector mail processing operations or changes therein. At the same time, the Postal Service recognizes that its decisions, particularly with regard to rates and classifications, has a bearing on the operations of its customers. Therefore, as I indicated in USPS-T-29 at 12, "the Postal Service is concerned about the impact [of rate decisions] on those customers whose efforts have played a part in the success of our automation program." Therefore, as discussed in my testimony, I have considered the impact on customers of the various rate proposals presented in this docket.

The rates paid by mailers of 5-Digit Automation Letters have declined since the rates implemented as a result of Docket No. R94-1 in January 1995. See my response to MMA/USPS-T29-3C.

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ABA&NAPM/USPS-T29-10 On page 12, line 5, of your testimony you refer to the high implicit cost coverage of FCM workshared letter mail of 281.6% in the base year (2000) for this case.

- a. Do you understand this to be a mark-up above variable costs?
- b. Is it your belief that this high mark-up indicates the impact of the private express statutes, namely the statutory monopoly, on FCM workshared rates? Please explain your answer completely.
- c. Where monopolists in the private sector engage in technological innovation which lower variable costs, do they tend to capture the value of the innovation in greater profitability as a result of their monopoly power? Cite empirical evidence in support of your answer.

RESPONSE:

- a. It is my understanding that this implicit cost coverage is calculated based on volume variable costs. See USPS-T-11, Exhibit USPS-11C at 1. Note: The associated markup is 181.6 percent.
- b. As I understand the question, the answer is no. The cited implicit cost coverage is not the result of an effort to exploit the statutory monopoly. In fact, although I am not the policy witness, my understanding of the statutory pricing criteria indicates that this is prohibited. Instead, the base year implicit cost coverage is the result of policies of the Postal Rate Commission and the Postal Service to reflect the avoided cost due to worksharing in discounts for the workshared mail. This is a "top-down" rather than a "bottom-up" approach, as the question infers. I have already discussed the potential of other avoided costs not currently measured and its effect on the rate design along with the effect of other factors. See my response to

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ABA&NAPM/USPS-T29-11(d). It was this approach, rather than an effort to take advantage of the statutory monopoly, that leads to the implicit cost coverage figures that you cite.

- c. Not necessarily. Profits are equal to the total revenue less the sum of variable costs and fixed costs. It would appear that if the fixed (non-volume-variable) cost of a technological innovation were sufficiently large, it would outweigh any reduction in the volume variable costs. I have not performed any empirical study of this question.

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ABA&NAPM/USPS-T29-11 Regarding your discussion on page 13, lines 1-7 please answer the following questions.

- a. What do you mean by the long-term? One year?
- b. Is this discussion simply code word language for the expected reclassification case the USPS will likely file after this case, in which subclass status for FCM workshared mail will be proposed?
- c. With regard to your statement that avoided costs appear to decline, reconcile this statement with your response to ABA & NAPM/USPS-T29-(7)(d) above.
- d. Is it your position that not disrupting the current rate structure for FCM workshared letters is more important than retaining the concept of avoided costs and discounts, if as you suggest, the two goals appear to be increasingly contradictory?
- e. Doesn't the situation referenced in c. indicate that the concept of avoided costs is perhaps an entirely obsolete basis for rate setting for FCM workshared mail?

RESPONSE:

- a. By "long term" I meant "at some time after the conclusion of Docket No. R2001-1." I am not defining "long term" as one year or any other specified time period.
- b. No. As indicated in my response to GCA/USPS-T29-3, "[n]o decision has been made as to whether the existing First-Class Mail subclasses will be restructured."
- c. My statement is based on cost avoidances estimated using the Postal Service's costing methodology. See my response to MMA/USPS-T29-6. The hypothetical case presented in ABA&NAPM/USPS-T29-7(d) purports to be

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based on the Postal Rate Commission costing methodology which was not used in developing the Postal Service's proposed First-Class Mail rates.

d. No. The cited portion of my testimony states:

The treatment of workshare discounts in instances where they have been an important component in controlling costs is an issue ripe for longer-term investigation in First-Class Mail rate design. As efforts to encourage worksharing are successful, avoided costs appear to decline. The result is larger rate increases (on a percentage basis) for customers who have been critical to the Postal Service's success. This must be addressed, in the long-term, as well as the more traditional workshare signals sent through the discount structure.

USPS-T-29 at 13.

This does not mean that "not disrupting the current rate structure for FCM workshared letters is more important than retaining the concept of avoided costs and discounts." The Postal Service considers the impact on its customers of any rate change. In some circumstances, this consideration results in a mitigation of rate changes, if it is appropriate, given cost, operational and other data. As I indicated in my testimony, the high implicit cost coverages for workshared First-Class Mail and the falling cost avoidances suggest that there may be some factors that reduce Postal Service costs that are not being captured by the estimated cost avoidance. I believe that a full evaluation of the current cost methodology is appropriate to determine if any such factors exist and whether it is appropriate to include them in any estimated cost avoidances.

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e. No.

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ABA&NAPM/USPS-T29-12 On page 14, lines 10-12 of your testimony, you claim any smaller increase in the first ounce rate for single piece FCM letters would impose unreasonably large increases on other classes of mail.

- a. Are you aware that before advertising mail became a large business for the Postal Service, FCM shouldered almost the entire cost burden of the universal delivery mandate?
- b. Are you aware that when advertising mail first became priced within postal services, it was priced at its marginal cost, with very little or no reference to covering any portion of the delivery costs of the Postal Service?
- c. Please state what your understanding is of the allocation, currently, of total delivery costs (not so-called volume variable costs and not so-called "attributable" costs) across the major mail subclasses.

RESPONSE:

- a. No. It is my understanding that advertising mail existed prior to the Postal Reorganization Act. I do not know what time period you are referring to and am unable to determine what you mean by "the entire cost burden of the universal delivery mandate."
- b. No. Advertising mail can be sent using First-Class Mail, Standard Mail and other classes of mail. "[W]hen advertising mail first became priced within postal services" easily predates the Postal Reorganization Act.
- c. Redirected to the Postal Service.

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ABA&NAPM/USPS-T29-14 On page 14, lines 14-17, you suggest that the general public could not handle a single piece first ounce FCLM rate in other than whole cents.

- a. Cite all studies or other information you relied on in rendering this opinion.
- b. Do you think the general public would mind buying even numbers of say a 36.5 cent stamp at a time if they could save a penny for every two stamps?

RESPONSE:

To clarify, I do not state that "the general public could not handle a single piece first ounce FCLM rate in other than whole cents." The cited portion of my testimony states:

For administrative ease and to avoid unnecessary complexity for the mailing public, the Postal Service considers that rates widely used by the general public should continue to be priced in whole cents.

USPS-T-29 at 14, lines 14-17.

- a. I am unaware of any studies evaluating the general public's view of a rate structure that resulted in the single-piece, first-ounce stamp priced in other than whole cent increments. However, the Postal Service has conducted market research to evaluate the public's view of a discount for bulk purchases of stamps that implicitly assume other-than-integer rates for the single-piece, first-ounce, First-Class Mail rate. See USPS-LR-J-196.
- b. The example of a 36.5-cent stamp has not been studied.

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ABA&NAPM/USPS-T29-16

Please refer to pages 7-9 of your testimony regarding the methodology you chose to forecast the additional ounce volume. You discuss two methods (Method 1 and Method 2) that you considered. However, you state that in evaluating them you found that Method 1 underestimates while Method 2 overestimates the additional ounce volume. Thus, ". . .due to the short time available to prepare the Postal Service's proposal for this case . . ." and "Faced with the choice between two imperfect methods, . . ." you decided to choose Method 1 with an adjustment of 1% to correct for underestimation.

- a. On what basis did you choose 1% adjustment? Why didn't you choose 2% or 3%? If you conducted any analyses in order to arrive at the 1% number, please provide those analyses. Otherwise, please state if it was based on your personal experience or hunch.
- b. If one method underestimates whereas the other method overestimates the forecast, why didn't you consider the average of the two? Wouldn't that have been easier and less controversial?
- c. If you had chosen the average of the two methods, what would have been the forecast for the additional ounce volume? How would have this affected the amount of revenue USPS would have generated due to this forecast?

RESPONSE:

- a. See USPS-LR-J-130. In determining that the 1 percent adjustment factor was appropriate, I estimated the number of additional ounces using three different base periods: FY 1998, FY 1999, and PQ3FY99 to PQ2FY00. In only one case (Method 2 using FY1998 as a base to estimate FY2000 – difference vs. actuals equals 2.28 percent) did either method differ by more than 2 percent in absolute value from the billing determinant number of additional ounces. Therefore, adjustment factors of over 2 percent were clearly inappropriate.
- b. I considered averaging the two methods. However, I did not do this because I could not logically explain what the resulting number of additional ounces

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would mean. In addition, I believe my method is computationally easier; test-year-after-rates additional ounces must be reprojected in each rate iteration following the provision of the test-year-after-rates volume forecast by witnesses Thress and Tolley. Using an averaging methodology would have at least doubled the number of computations needed to determine the test-year-after-rates number of additional ounces.

- c. I have not performed this analysis. However, based on the results from USPS-LR-J-130, I believe the estimated number of additional ounces would not be significantly different from those presented in my testimony.

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ABA&NAPM/USPS-T29-17

Please refer to page 10 of your testimony. You state that "Benchmarked cost avoidances provide important data on the Postal Service's avoided costs; however, they do not necessarily form a complete picture of the Postal Service's cost structure."

- a. Please provide in detail the "complete picture of the Postal Service's cost structure" pertinent to benchmarked cost avoidance.
- b. How would the knowledge of "complete picture of the Postal Service's cost structure" affect the calculations of cost avoidances?

RESPONSE:

- a. In developing the First-Class Mail rate proposals, I considered the relatively high implicit cost coverage for workshared First-Class Mail. This suggests that there may be unknown factors that affect the Postal Service's costs for workshared Letters. See my response to MMA/USPS-T29-3.
- b. Until such a study is completed, I cannot determine the impact on the estimated cost avoidances.

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ABA&NAPM/USPS-T29-18

Please refer to pages 11-12 of your testimony. You state "Witness Miller's cost avoidance estimates . . . are designed to capture the costs of avoided Postal Service operations and his estimates may not reflect factors such as mail characteristics or additional activities that the Postal Service does not perform (and thus cannot be "avoided), but which do provide a benefit to the Postal Service."

- a. Please describe in detail all those characteristics or additional activities that provide benefit to the Postal Service. Please be specific as to the nature of those activities.
- b. Please provide some dollar estimates of those benefits. If such estimates do not exist, please explain why USPS has not yet estimated the dollar values of such benefits which can be useful in rates design.

RESPONSE:

- a. See my response to MMA/USPS-T29-3.
- b. As these characteristics or benefits have not been studied, I cannot estimate the dollar value, if any, of those benefits. While I am not an expert in the development of cost models, for this Docket, a decision to update existing cost models rather than perform extensive engineering studies needed to materially change the models was made due to time and resource constraints.

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ABA&NAPM/USPS-T29-19

- a. Please confirm that you have presented the following pass through values for FCM at page 20 of your testimony:

Mixed AADC	119%
AADC	115%
3-Digit	121%
5-Digit	121%

- b. Please confirm that the Postal Service is proposing the following pass through values for Standard Mail, and if you do not confirm, please provide the correct pass through values as well as the unit cost savings and proposed discounts:

Mixed AADC	194%
AADC	169%
3-Digit	142%
5-Digit	139%

- c. Explain in detail and provide any studies or analyses conducted to justify the reasons the pass through values (proposed discounts relative to work-sharing related savings) for Standard Mail are substantially larger than those for First-Class Mail.

RESPONSE:

- a. Confirmed. However, witness Miller has revised the estimated cost avoidances. Based on witness Miller's revised (11/16/2001) cost estimates, the calculated passthroughs for mixed AADC Letters would be 120 percent and the calculated passthrough for AADC letters would be 116 percent. The passthroughs for 3-Digit and 5-Digit Automation Letters remain at 121 percent.
- b. Redirected to witness Moeller.
- c. Redirected to witness Moeller.

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ABA&NAPM/USPS-T29-20 In response to MMA/USPS-T29-2.c. and again at your response to MMA/USPS-T29-4.b., you state that your 1/2 cent increase discount proposal balances the issue of pass-throughs of cost avoidance with the issue of implicit cost coverage creep within FCM workshared letters.

- a. Please quantify why that balance would be achieved at just a 0.5 cent increase, as opposed to a 0.6, 0.7, 0.8, 0.9 and 1.0 cent increase.
- b. In fact, isn't your apparent "balance" made possible by the fact that you are raising all rates for the FCM letters subclass by 3 cents, which then makes it possible for a larger giveback of 1/2 cent (or more)?

RESPONSE:

- a. My decision to increase automation discounts by 0.5 cents considered, in part, witness Moeller's (USPS-T-28) proposed cost coverage for the Letters subclass, the resulting rate relationships, the rate changes at differing weight increments, the high implicit cost coverage for workshared Letters, and the resulting degree of rate complexity. Based on my assessment of these factors, I determined that a 0.5-cent increase in the automation discounts was appropriate.
- b. No. The proposed increase in the First-Class Mail first-ounce rate is explained in my testimony. USPS-T-29 at 14. I do not consider the increase in the automation discounts to be a "give-back" funded by the single-piece, first-ounce First-Class Mail rate.

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ABA&NAPM/USPS-T29-21 In response to MMA/USPS-T29-3.c. you show the recent history of a single rate category (FCM workshared letters, 5D), but date the comparison from R94-1. Please provide the information for all workshared letter rate categories, FCM and Standard A, using MC95-1 as the benchmark start date and R2000-1 (7/1/01) as the end date.

RESPONSE:

The comparison of the current rates to the rates resulting from Docket No. R94-1 was designed to indicate the rate incentives established in the Postal Service's rates for automation-compatible mail. Comparing to Docket No. R94-1, is appropriate because the MC95-1 rate change established many of these rate incentives.

First-Class Mail

Automation Letters	R94-1 Rates (1/1/95)	MC95-1 Rates (7/1/96)	R2000-1 Rates (7/1/01)	R2000-1 Difference vs. R94-1	R2000-1 Difference vs. MC95-1
Nonauto Presort	27.4	29.5	32.2	4.8	2.7
Basic Automation	N/A	26.1	28.0	N/A	1.9
3-D Automation	26.4	25.4	26.9	0.5	1.5
5-D Automation	25.8	23.8	25.5	-0.3	1.7
Carrier Route	25.4	23.0	24.5	-1.1	1.5

Source: USPS-LR-J-90

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Response to ABA&NAPM/USPS-T29-21 (page 2 of 2)

In order to respond to this question, witness Moeller (USPS-T-32) has provided me with the following table:

Standard Mail Regular

Per Piece Rate Letters	R94-1 Rates (1/1/95)	MC95-1 Rates (7/1/96)	R2000-1 Rates (7/1/01)	R2000-1 Difference vs. R94-1	R2000-1 Difference vs. MC95-1
Nonauto Basic	22.6	25.6	25.3	2.7	-0.3
Nonauto 3/5	18.8	20.9	23.3	4.5	1.4
Basic Automation	20.4	18.3	20.0	-0.4	1.7
3-D Automation	17.5	17.5	19.0	1.5	1.5
5-D Automation	16.6	15.5	17.7	1.1	2.2

Source: USPS-LR-J-90

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ABA&NAPM/USPS-T29-22 In response to MMA/USPS-T29-4.a., you state "I was also reluctant to increase the discounts further given the lack of data on the reasons underlying the high implicit cost coverages observed for workshare mail."

- a. Please confirm that in past rate cases through R2000-1, USPS rate design (and other) witnesses have alleged that the sole reason for these high and growing "implicit" cost coverages for FCM workshared are the reduced costs of mail processing from more highly prepared mail entering the system. (See, e.g. R2000-1, USPS-T32, page 10, lines 1-14, witness Mayes, discussing the cost criteria of section 3622.b.)
- b. Please confirm that in this case, USPS rate design witness Moeller (USPS-T28) does not raise the issue raised by witness Mayes in a. above in his discussion of section 3622.b. cost criteria.
- c. In light of your answers to a. and b. above, has the Postal Service recanted its previous position in favor of this view that cost coverage creep is an issue whose causes need to be studied?
- d. Do they need to be studied before any contemplated reclassification of FCM letters subclass?
- e. Are any studies of this issue now underway, or contemplated?
- f. Please confirm that in a private market, if costs for a product or service go down, but prices do not, or do not in the same proportion, then profits go up.
- g. Please confirm that in a private market, if costs go down but prices do not, that is an indication of a degree of market power possessed by the seller in such a market.

RESPONSE:

- a. Not confirmed. In Docket No. R2000-1, witness Mayes does not state that the "sole" reason for increasing implicit cost coverages is increased mail preparation. The cited portion of witness Mayes' Docket No. R2000-1 testimony reads:

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The more highly-prepared the mail, the lower the postal cost attributed to that category of mail. The lower the costs attributed to that category of mail, the lower the cost base to which the rate level is applied. If the same cost coverage is assigned to two categories of mail differing only in the degree to which the mailer has prepared the mail, the more highly-prepared mail would have a reduced unit contribution. Thus, as the degree of preparation increases over time, all else equal, the coverage required to obtain the same contribution also increases. This has implications for the systemwide cost coverage, as well, given that institutional costs must, nevertheless, be recovered from postage and fees charged for postal services. Worksharing removes attributable costs but leaves institutional costs unchanged. Thus, as the overall level of worksharing increases, the percentage of total cost that is attributable can be expected to shrink and the required system-average cost coverage will increase, all else equal.

Docket No. R2000-1, USPS-T-32 at 10.

b. Not confirmed. Witness Moeller's testimony states:

The more highly-prepared the mail, the lower the postal cost attributed to that category of mail. The lower the costs attributed to a category of mail, the lower the cost base to which the rate level is applied. If the same cost coverage is assigned to two categories of mail differing only in the degree to which the mailer has prepared the mail, the more highly-prepared mail would have a reduced unit contribution. Thus, as the degree of preparation increases over time, all else equal, the coverage required to obtain the same contribution also increases. This has implications for the systemwide cost coverage, as well, given that institutional costs must, nevertheless, be recovered from postage and fees charged for postal services. Worksharing removes attributable costs but leaves institutional costs unchanged. Thus, as the overall level of worksharing increases, the percentage of total cost that is attributable can be expected to shrink and the required system-wide average cost coverage will increase, all else equal.

USPS-T-28 at 10.

c. No.

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- d. No decision has been made as to whether the existing First-Class Mail subclasses will be restructured. If such a decision were to be made, the type of studies required to support any resulting proposal would be determined at that time.
- e. Not to my knowledge.
- f. To respond to this question, I assume that that fixed costs are constant and the quantity sold by a firm does not change. Confirmed that if unit variable costs fall and price does not change, then profits increase. Not confirmed that if unit variable costs fall and price falls by a lower proportion, then profits will always increase. Consider the following simplified example.

In each case: Fixed Costs = 0 and Quantity Sold = 1

Case 1:

Price = 100

Unit Variable Cost = 10

Profits = Total Revenue – Variable Cost – Fixed Cost

$$= (1)(100) - (1) (10) - 0$$

$$= 100 - 10 = 90$$

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Case 2: Assume price falls by 10 percent and unit variable costs fall by 20 percent.

$$\text{Price} = 100 * (1 - 10\%) = 90$$

$$\text{Unit Variable Cost} = 10 * (1 - 20\%) = 8$$

$$\text{Profits} = \text{Total Revenue} - \text{Variable Cost} - \text{Fixed Cost}$$

$$= (1)(90) - (1)(8) - 0$$

$$= 90 - 8 = 82$$

- g. Confirmed. If a firm's unit costs fall and the price it receives for its product does not, that is an indication that the firm has no market power, i.e., that the market is "perfectly competitive."

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ABA&NAPM/USPS-T29-23 In response to MMA/USPS-T29-4.d. you state that "I am not recommending an implicit cost coverage for First Class Mail workshared letters." Yet, in response to MMA/USPS-T29-4.c. you state "I chose to mitigate the impact on automation rates by increasing discounts by 0.5 cents."

- a. Please confirm that your choice on discounts leads to a set of rates for workshared letters within the overall FCM rate design for the letters subclass.
- b. Please confirm that "implicit" cost coverages for workshared letters within the FCM letters subclass are determined once workshared letter rates are set.
- c. Please confirm that in your rate design proposal for FCM letters, you were aware at all stages of the process what impact your discount and rate options for FCM workshared letters would have on implicit cost coverages for workshared letters, either from your own calculations or in discussion with other USPS witnesses and analysts.
- d. If your answer to c. is other than an unqualified confirmed, please explain why you would not have considered cost coverage implications from the different rates and discounts you contemplated.
- e. Please confirm that had you "chosen" a different increase for discounts than $\frac{1}{2}$ cent, the implicit cost coverage would have been different than the TY2003 after rates 294.1% that necessarily follows from your discounts choice.
- f. When you say "I chose to mitigate," is it not also true that you had the free will, for example, to say "I chose to mitigate the impact on automation rates by increasing discounts by 0.6 cents." If the answer is anything other than an unqualified "Yes", please explain in complete detail why you "chose" 0.5 cents and not 0.6 cents.
- g. Please confirm that the two factors you "balanced" in arriving at your discounts for FCM workshared letters, namely cost avoidance, and cost coverage creep, are both exact, quantified magnitudes, i.e. numbers, and that your discount increase choice is also an exact number, namely 0.5 cents.
- h. If your choice of an increase in discounts was not in fact somewhat arbitrary, as many of your comments would appear to suggest, please explain fully why your "choice" of a 0.5 cent increase in discounts was not arbitrary. [E. G., please state exactly the mathematical relationship you used in balancing these two factors to arrive at a 0.5 cent increase in discounts, (I. E., the weight you assigned each of your two stated considerations)].

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- i. If you did not use a mathematical relationship, please state to what degree your own choice for increasing discounts was subjective or intuitive?

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed, that the implicit cost coverage could be calculated at the end of any rate iteration. However, "awareness" of the resulting implicit cost coverage is not the same as "recommending" an implicit cost coverage.
- d. I was not recommending an implicit cost coverage, my analysis was focussed on developing First-Class Mail rates that were reasonable and met various policy and operational goals.
- e. Not confirmed. It is possible that some other combination of rate elements would have resulted in an implicit cost coverage for workshared Letters of 294.1 percent.
- f. No. As the First-Class Mail pricing witness, it was my decision to increase the First-Class Mail automation discounts by 0.5 cents. I was never directed by Postal Service management to increase the automation discounts by 0.5 cents. My decision to increase the automation discounts by 0.5 cents (as opposed to establishing any other discounts) as compared to the current discount was based on witness Moeller's (USPS-T-28) proposed cost coverage for the First-Class Mail Letters and Sealed Parcels subclass,

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witness Miller's estimated cost avoidances, the resulting rate relationships, and the relative rate changes.

- g. Confirmed that (1) the estimated cost avoidances presented by witness Miller are exact numbers; (2) the implicit cost coverages in the test-year-before-rates and the test-year-after-rates are exact numbers; and (3) that the proposed discounts are exact numbers. However, in the Letters subclass, the discounts were increased 0.5 cents for Automation Letters and Automation Flats, they were not increased for Nonautomation Presort and Carrier Route Letters.
- h. My decision to increase the automation discounts by 0.5 cents was subjective; I did not use a "mathematical relationship" to determine what the discounts should be.
- i. As indicated in my response to ABA&NAPM/USPS-T29-23(h), this decision was subjective.

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ABA&NAPM/USPS-T29-24 On page 13, lines 3-4, of your testimony you state that "[as] efforts to encourage worksharing are successful, avoided costs appear to decline."

- a. Are you asserting cause and effect? If so please fully explain.
- b. Are you asserting statistical correlation? If so please provide any data you have.
- c. Would you agree that the Postal Service's labor agreements with clerks might give it an incentive to produce cost studies showing a reduction in avoided costs in an effort to keep work in house?
- d. Would you agree that the Postal Service has an inherent conflict between encouraging work sharing on the one hand, and providing job security to mail processing clerks on the other?
- e. Are you aware of the term "labor refugees" introduced by witness Halstein Stralberg in prior rate cases in reference to the impact of automation on the need for mail processing clerks?
- f. In your view, would keeping more of the mail processing work in house for FCM workshared letter mail result in a higher dollar value contribution to USPS institutional costs and fewer attributable costs and higher cost coverages for Automated FCLM than would greater outsourcing? Or would the contribution levels be about the same dollar wise? Please provide all necessary calculations needed to answer the question.

RESPONSE:

- a. No.
- b. No.
- c. No. It is my understanding that Postal Service cost studies are designed to estimate the cost avoidances from worksharing. At the same time, my understanding is that mail processing employees and union officials have expressed the belief that the discounts are too large in an attempt to limit the opportunity for long-term employment. I presume that the concerns

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expressed in the question and their concerns are natural given their circumstances.

- d. No, while I have not studied this issue, I believe that the mail processing employees' long-term employment prospects are best served by offering reasonably-priced postal products. Therefore, I do not see an inherent conflict.
- e. No. However, a quick search of the Postal Rate Commission's web site reveals that witness Halstein Stralberg used the term "automation refugees" to refer to "employees formerly used for letter sorting, either manually or on LSM's, but no longer needed for those tasks, except, perhaps, during short surge periods before some critical dispatches." Docket No. R97-1, TW-T-1 at 7.
- f. I have not studied this question.

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ABA&NAPM/USPS-T29-26 In response to MMA/USPS-T29-5, you speak of "low relative First Class mail rate increases since the mid-1990s".

- a. Is the rate increase for FCM in this rate increase, therefore, large, namely 3 cents compared to the 1 cent increase in R2000-1?
- b. Would you agree that relatively, Standard A mail rates have been kept even lower than FCM mail rates?
- c. If your answer to b. is in the affirmative, please explain why since the same mailer preparation activities apply to both classes.

RESPONSE:

- a. The proposed first-ounce, single-piece First-Class Mail Letter rate increase of 3 cents from 34 cents to 37 cents is larger than the one-cent increase proposed in Docket No. R2000-1.
- b. Redirected to witness Moeller.
- c. Redirected to witness Moeller.

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ABA&NAPM/USPS-T29-28 You propose an expanded definition of the single piece nonstandard surcharge in your testimony.

- a. Is this a precursor to reclassification of the letters subclass of FCM?
- b. Please confirm that projected volumes of FCM workshared letters are now or shortly will exceed those of single piece letters.
- c. Would the change in b. be a legitimate reason for redefining the FCM letters subclass?
- d. Under such a hypothetical reclassification, would there be a surcharge for FCM collection mail? For facing and canceling?

RESPONSE:

- a. No. As described in my testimony, I am proposing to expand and rename the current nonstandard surcharge as the proposed nonmachinable surcharge.

This expanded definition is designed to signal mailers about the costs of processing nonmachinable mail.
- b. Confirmed that in the test-year-after-rates, the volume of workshared Letters is greater than the volume of single-piece Letters. USPS-T-7.
- c. I do not know, I have not studied this issue.
- d. I do not know, I have not studied this issue.

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ABA&NAPM/USPS-T29-29 In response to MMA/USPS-T29-11.b., you state the issue of advertising included with FCM letters being priced higher than advertising included in Standard A letters "does not present a "problem." You so state, arguing it gives mailers additional choices and that there are other cost factors involved for the mailers in making such a choice.

- a. In fact, is not the example MMA presents an overt case of price discrimination as defined in various antitrust statutes?
- b. Is it not a fact that the other cost factors you mention are precisely what enables the Postal service to so price discriminate, i.e. except for those higher mailer costs to prepare two pieces of mail rather than one, they would always choose the Standard A rate option for the ad mail given the two tiers in pricing noted in the MMA interrogatory?

RESPONSE:

- a. Objection filed.
- b. [Partial objection filed.] I will respond to the question to the extent possible without accepting your premise that price discrimination exists or knowing your definition of price discrimination.

As I indicated in my response to MMA/USPS-T29-11C, there may be other, noncost factors -- such as "the expected response rates from an advertising piece enclosed with an invoice versus a stand-alone advertising piece, and differing service standards for First-Class Mail and Standard Mail" -- that would result in the mailer choosing to combine an advertising piece with an invoice in one two-ounce First-Class Mail piece rather than mailing two pieces.

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ABA&NAPM/USPS-T29-30 In response to MMA/USPS-T29-12 you state that "marginal cost estimates by ounce increment are problematic".

- a. Which weight cell increments are problematic?
- b. How can lumping problematic weight cells into an overall group create an accurate measure of extra ounce costs?

RESPONSE:

- a. As has been noted by witness Schenk, (see response to ABA&NAPM/USPS-T43-14(c) and 15(b)), the costs by weight distributions are designed to provide a general indication of the relationship between weight and cost, and do not control for other factors, such as machinability, presort level, and other piece characteristics. In addition, I am informed that lightly populated weight cell increments (typically the heavier weight increments) are potentially problematic, in that the cost estimates for those weight increments can be subject to more sampling variation. See witness Schenk's response to ABA&NAPM/USPS-T43-14(c).
- b. See witness Schenk's response to POIR No. 5, Question 12.

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ABA&NAPM/USPS-T29-31 In response to GCA/USPS-T29-18, you state that "some mailers have expended resources to participate in the workshare program."

- a. Please confirm that all mailers who participate in the workshare program expend resources, i.e. have capital costs for automation equipment, labor costs, management costs, etc.
- b. If your answer to a. is other than an unqualified "Yes.", please explain how any worksharing mailer could participate in the program without "expended resources".

RESPONSE:

- a. Not confirmed. My intent in the quoted response was to indicate that some mailers have chosen to participate in the workshare program and some mailers have opted not to participate in the workshare program.
- b. When a workshare program is instituted, there may be mailers who had been preparing mail in a way that complies with the new workshare program's requirements. These mailers would not need to expend additional resources in order to receive a discount.

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ABA&NAPM/USPS-T29-32 In response to GCA/USPS-T29-9, you appear to imply that the Postal Service is no longer setting FCM worksharing letters discounts to encourage greater volume of such letters in order to drive costs out of the Service.

- a. Does your answer imply that there has been a fundamental shift in the philosophy?
- b. Is the USPS counting on processing all or nearly all remaining non-automation mail on its own systems?
- c. If your answer to b. is anything other than an unqualified "No.", please explain what sense or legitimacy a metered mail benchmark has for setting worksharing discounts, if in fact this is no longer considered candidate mail for conversion to worksharing if the USPS is going to process this mail in house.

RESPONSE:

- a. No. The intent of my response was to indicate that the goal of the proposed discounts was not to "grow volume" above and beyond the level resulting from the economic signals the Postal Service costs that are conveyed through the proposed discounts.
- b. Yes. By definition, mail that is presented by mailers as "nonautomated" will be processed by the Postal Service. The letter mail that was most easily automated has taken advantage of the existing discount structure since the implementation of Docket No. MC95-1. Therefore, it is unlikely that the Postal Service will see the growth rates in Automation letter volume that occurred in the last ten years. However, this does not mean that "candidate mail" for conversion to worksharing does not exist.

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- c. Bulk metered mail is the mail whose characteristics make it most likely to convert to worksharing. Witness Miller provides examples of bulk metered mail that is "candidate mail" for conversion to worksharing. USPS-T-22 at 19.

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ABA&NAPM/USPS-T29-33 Suppose there were no further candidate mail for conversion to worksharing (i.e. the primary volume growth driver), as your answer to GCA/USPS-T29-9 seems to imply.

- a. How would the USPS set discounts for FCM worksharing letters?
- b. What factors would be used to define a benchmark and why?
- c. Would such a situation increase the likelihood that subclass status would be warranted for such workshared letter mail?

RESPONSE:

As indicated in my response to ABA&NAPM/USPS-T29-33, I do not believe that there is "no further candidate mail for conversion to worksharing."

- a. – c As indicated in my response to ABA&NAPM/USPS-T29-33, I do not believe that there is "no further candidate mail for conversion to worksharing." Therefore, I have not studied these questions, nor am I aware of the Postal Service conducting any such studies.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF GREETING CARD ASSOCIATION

GCA/USPS-T29-1. Please identify and provide the studies relied upon in the preparation of your testimony in this proceeding.

RESPONSE:

I cannot specify all of the documents or studies I relied on during the preparation of my testimony. With that qualification, I relied upon the studies and data provided in the testimony and associated library references of witnesses Tayman (USPS-T-6), Tolley (USPS-T-7), Thress (USPS-T-8), Patalunas (USPS-T-12), Miller (USPS-T-22 and USPS-T-24), Moeller (USPS-T-28), Kingsley (USPS-T-39), and Schenk (USPS-T-43). Copies of these studies were filed with the Postal Service's Request. In addition, during the preparation of my testimony, I reviewed prior Postal Rate Commission Recommended Decisions as well as previous testimonies of Postal Service and intervenor witnesses.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-2. Please identify each of the persons you conferred with in the course of being assigned to and preparing your testimony in this proceeding. For each such person, identify the subjects addressed and when you conferred.

RESPONSE:

I do not maintain either telephone or activity logs; therefore, I cannot identify "each of the persons [I] conferred with . . . identify the subjects addressed and when [I] conferred." I spoke with a large number of individuals within the Postal Service in order to gain an understanding of First-Class Mail issues, some of these individuals are listed in the response to GCA/USPS-T29-1. The following list provides the names and titles of the members of Postal Service management with whom I conferred on First-Class Mail rate design.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-3. Trade press reports indicate that the Postal Service is planning to file a "product redesign" classification proceeding (see Attachments A, B and C).

- a. Please set forth in detail your understanding of the present status of the proposed product redesign case.
- b. Please set forth in detail your understanding of present plans to include in the product redesign case any proposals to create new subclasses, or adjust the definitions of existing subclasses, within First-Class Mail.

RESPONSE:

- a. I understand that the product redesign effort is collecting input from stakeholders to use in developing prospective rate and classification structures for review by management.
- b. No decision has been made as to whether the existing First-Class Mail subclasses will be restructured.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF GREETING CARD ASSOCIATION

GCA/USPS-T29-4. Please refer to page 10 of your testimony. Is it your understanding that automation of mail processing is a goal in itself, or is it pursued for an overarching purpose or goal?

RESPONSE:

As discussed in my testimony, "[t]he Postal Service relies on automation to control the costs of mail processing and delivery functions" (USPS-T-29 at 10) in order to provide mail services at a reasonable price.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF GREETING CARD ASSOCIATION

GCA/USPS-T29-5. Do you agree that if worksharing discounts exceed the cost savings to the Postal Service occasioned by the worksharing, then, all else equal, a reduction in Postal Service net revenues will result? If you do not agree, please explain why.

RESPONSE:

No. While I am not an expert on the forecasting models (see USPS-T-7 and USPS-T-8), it is my understanding that the various price elasticities might need be considered, in addition to information on cost savings, determining whether a change in the workshare discounts will increase or decrease Postal Service net revenue. However, assuming that all else is equal, if prices are reduced for any product with a relatively inelastic own-price sensitivity, revenues decline. This is true regardless of whether the reduction is tied to a discount or not

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GCA/USPS-T29-6. Do you agree that, all else equal, a worksharing discount exceeding the cost savings to the Postal Service occasioned by the worksharing can result in mailers' performing some work that would be performed at less cost by the Postal Service? If you do not agree, please explain why.

RESPONSE:

No. As I discuss in my testimony, the high implicit cost coverage for workshared First-Class Mail suggests that the estimated cost avoidances "may not reflect factors such as mail characteristics or additional activities that the Postal Service does not perform (and thus cannot be 'avoided'), but which do provide a benefit to the Postal Service." USPS-T-29 at 11-12. This speculation can only be confirmed by a careful study of all factors that may affect the Postal Service's costs for workshared First-Class Mail. See response to MMA/USPS-T29-3

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-7. In preparing your testimony, what was your understanding as to the respective quantified effects on volumes of (a) workshared First-Class Mail, (b) non-workshared First-Class Mail, and (c) First-Class Mail, as a whole, of setting worksharing discounts at (i) avoided cost (ii) the current discount, or (iii) the increased discount your testimony proposes?

RESPONSE:

The impact of First-Class Mail prices including First-Class Mail discounts on the volume of (a) workshared First-Class Mail, (b) nonworkshared First-Class Mail and (c) First-Class Mail as a whole are estimated by witnesses Tolley (USPS-T-7) and Thress (USPS-T-8). To the best of my knowledge and as I understand the question, no forecast was prepared using (i) avoided cost. The forecasts using (ii) the current discounts in conjunction with all other current rates and (iii) the proposed discounts in conjunction with all other proposed rates are included in witness Tolley's testimony (USPS-T-7) as the test-year-before-rates and the test-year-after-rates forecasts, respectively.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-8. If called upon to quantify the volume effect of changing a First-Class letter mail worksharing discount, all else equal, would you use the Workshared Discount elasticity presented by witness Tolley (USPS-T7, table 3)?

- a. If your answer is "yes," please explain how you would use this elasticity.
- b. If your answer is "no," please explain why, and identify any other measure of change in volume with change in discount that you would use

RESPONSE:

This question poses a hypothetical outside the scope of my testimony. I have not considered how I would forecast First-Class Mail volumes, if called upon to do so. Therefore, in the absence of any independent study of these issues, I would rely on the methodology presented in witness Tolley's testimony.

- a. While I have a general understanding of the Postal Service forecasting models, I am not an expert on these models. Therefore, I rely on the professional judgment of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8) to estimate the volume of First-Class Mail. As described in witnesses Tolley's (USPS-T-7) and Thress's (USPS-T-8) testimonies, this would include using the workshare discount elasticity in conjunction with the other inputs.
- b. Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-9. Does your proposal to raise worksharing discounts above the level of avoided costs have as one of its purposes to elicit new volumes of First-Class Mail (i.e., mail that would not have been sent at all but for the fixing of worksharing discounts at the levels you propose)? If your answer is affirmative, please provide any estimates you have made or relied on of the amount of new volume that would be elicited and the revenue and net revenue associated therewith.

RESPONSE:

No. As discussed in my testimony, the purpose of the discount proposal is to meet a variety of statutory requirements and policy goals rather than to meet specific volume goals.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-10. Does your proposal to raise the worksharing discounts above the level of avoided costs have as one of its purposes to elicit volumes of First-Class Mail that would not have been, or would not continue to be sent but for the fixing of worksharing discounts at the levels you propose. If your answer is affirmative, please provide any estimates you have made or relied on of the amount of new volume that would be elicited and the revenue and net revenue associated therewith.

RESPONSE:

No, but witness Tolley's (USPS-T-7) test-year-after-rates volume forecast does incorporate the impact of changed workshare discounts on mail volume. However, my testimony does recognize the Postal Service's ongoing concern that significant decreases in the workshare discounts may reduce the willingness of mailers to presort and to make their mail automation compatible. In addition, witness Bernstein's testimony (USPS-T-10) discusses the issues of electronic diversion and its potential impact on mail volume.

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GCA/USPS-T29-11. Are you familiar with the concept of a "supply curve?"

RESPONSE:

Yes.

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GCA/USPS-T29-12. If your response to question 11 is in the affirmative, does your testimony rely upon any supply curves relating worksharing discounts to worksharing supplied? If it does, please provide those supply curves and their derivation.

RESPONSE:

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-13. Please set forth in detail your understanding as to how the Postal Service benefits from worksharing other than by avoiding costs

RESPONSE:

See response to MMA/USPS-T29-3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-14. Please refer to page 20 of your testimony, at line 12. Please explain how you quantify the "value of mailer worksharing" for purposes of recognizing it in selecting your chosen passthroughs and discounts. In responding, please specifically identify and quantify any value-creating factors other than worksharing-generated savings to the Postal Service which you took in account.

RESPONSE:

The "value of mailer worksharing" is quantified in witness Miller's cost avoidance estimates. See USPS-T-22 at Table 1. In setting the automation discounts, I also considered "the importance of mailer barcoding and presortation in overall postal operations" and that, "overall, automated letters are a low cost, high contribution mail stream." USPS-T-29 at 20-21. This is quantified by the high implicit cost coverage for workshared Letters (294.1 percent TYAR) as compared to the implicit cost coverage for single-piece Letters (176.1 percent TYAR) USPS-T-29, Attachment A at 2. In designing First-Class Mail rates, in light of the high relative implicit cost coverage for workshared Letters, I determined that it was appropriate to mitigate the rate change for workshared letters by increasing the discounts by 0.5 cents. USPS-T-29 at 21.

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GCA/USPS-T29-15. Please refer to page 11 of your testimony.

- a. Please state your understanding of the reasons for witness Miller's finding of "smaller avoided cost differences between automation tiers than the discounts resulting from Docket R2000-1."
- b. Please supply citations to all portions of witness Miller's testimony on which you rely for the understanding stated in response to part a.

RESPONSE:

- a. To clarify, the cited quote is from my testimony and reflects my comparison of witness Miller's avoided cost estimates (USPS-T22 at Table 1) to the current workshare discounts. It is my understanding that witness Miller developed his avoided cost estimates through an analysis of the expected test-year operating environment and projected test-year costs which are not necessarily the same as in the Docket No. R2000-1 test year. In addition, the current workshare discounts are based on the Postal Rate Commission's costing methodology that differs from that of the Postal Service. In Docket R2000-1, this resulted in different estimates of the cost avoidances for workshare mail. Compare Docket No. R2000-1, PRC Op. Table 5-3 at 243, to Docket No. R2000-1, USPS-T-33, Table 7 at 33.
- b. My understanding is based on conversations with witness Miller. Some of these factors are discussed in USPS-T-22 at 5, lines 8-10 and USPS-T-22 at 6, line 22 – line 5.

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GCA/USPS-T29-17. Are you familiar with the concept of a "cross subsidy?" If your answer is in the affirmative, please provide your understanding of that concept.

RESPONSE:

Yes. My understanding is that cross subsidy is precluded, as discussed in the testimony of witness Moeller (USPS-T-28), if "the Postal Service's proposed rate levels result in revenue that will cover the incremental costs." USPS-T-28 at 7

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GCA/USPS-T29-18. Please refer to page 12 of your testimony

- a. When preparing your testimony, did you consider the costs incurred by mailers to provide worksharing?
- b. Did you attempt to quantify those costs and to compare them to discounts at current levels, at levels equal to avoided costs, or at your proposed levels? If so, please provide your quantification of the costs and your comparison of the costs and the respective discounts.

RESPONSE:

- a. No. However, I do recognize that some mailers have expended resources to participate in the workshare program
- b. No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-19. With regard to implied coverage, please provide your understanding as to:

- a. the Commission's prior treatment of that concept; and
- b. the respective implied coverages of the various types of mail matter within First-Class Letters, i.e., letters, flats, and sealed parcels, at current rates and at your proposed rates.

RESPONSE:

- a. In its Docket No. R2000-1 discussion of the Standard Mail ECR pound rate, the Postal Rate Commission recognized that examining implicit markups can "advance understanding" of some issues. Docket No. R2000-1, PRC Op. at 390-393.
- b. I did not calculate implied cost coverages by shape for the various types of mail matter within First-Class Mail Letters and Sealed Parcels. My testimony provides TYBR and TYAR implied cost coverages for (1) single-piece, First-Class Mail Letters and Sealed Parcels; (2) workshared, First-Class Mail Letters and Sealed Parcels; (3) single-piece, First-Class Mail Cards; and (4) workshared, First-Class Mail Cards. USPS-T-29 at Attachment A

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GCA/USPS-T29-20. In preparing your testimony, did you give consideration to the implied coverage of single-piece First-Class Mail other than flats and sealed parcels? If you did, please explain that consideration and the results you obtained when considering the implied coverages of such mail without the inclusion of flats and sealed parcels.

RESPONSE:

I did not consider the implied coverage of single-piece, First-Class Mail other than flats and sealed parcels. See response to GCA/USPS-T-29-19

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GCA/USPS-T29-21. Please refer to page 20 of your testimony, at lines 12-13. Please identify all portions of your testimony in which you considered the value of avoiding disruptive rate impacts with respect to any portion of First-Class Mail other than workshared letters.

RESPONSE:

I considered the potential impact on customers of the all proposed First-Class Mail rate elements whether this is explicitly discussed in my testimony or not. For specific examples, see the discussion of:

- Qualified Business Reply Mail discount: "I did not reduce the discount further in recognition of the potential impact on QBRM recipients." USPS-T-29 at 15, lines 7-9.
- Single-piece, additional ounce rates: "I did not want to burden single-piece mailers with a fractional additional ounce rate." USPS-T-29 at 16, lines 6-7
- Nonmachinable surcharge: "[T]hose mailers who prepare machinable mail will not be unfairly penalized by the upward pressure on costs caused by nonmachinable pieces." USPS-T-29 at 17, lines 16-18.
- Nonautomation Presort Discount: "[A] further reduction in the discount . . . in conjunction with the extension of the nonmachinable . . . surcharge could result in a significant impact for customers." USPS-T-29 at 19, lines 12-15.
- Workshare additional ounce rate: "the overall impact on the affected mailers should be minimal." USPS-T-29 at 24, line 21 – 25, line 1.
- Heavy Piece Discount: "[I]t would cause significant disruption for some mailers." USPS-T-29 at 26, lines 12-13.

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Response to GCA/USPS-T29-21 (continued)

- Single-piece postcards: “[a] larger rate increase for single-piece postcards was not proposed because of the potential impact on mailers.” USPS-T-29 at 27, lines 9-10.
- Qualified Business Reply Mail postcards: “I chose not to further reduce the QBRM cards postage discount in recognition of the effect on QBRM mailers.” USPS-T-29 at 27, line 22 – 28, line 2.
- Preparation requirements for First-Class Mail Cards: “[T]he changes to the preparation requirements are expected to be minimal and are expected to have little impact on mailers.” USPS-T-29 at 30, lines 6-8.

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GCA/USPS-T29-22. With reference to your table 3, please provide your understanding as to:

- a. whether discounts exceeding avoided costs are proposed for any other mail categories;
- b. how the revenue foregoing from discounts that are proposed to exceed avoided costs would be elsewhere obtained; and
- c. assuming for purposes of your answer the appropriateness of the considerations you list at page 20, line 9 through page 21, line 16, when and in what circumstances you would recommend reducing worksharing discounts to the level of avoided costs.

RESPONSE:

- a. It is my understanding that discounts exceeding estimated avoided costs are proposed in the following subclasses: Periodicals, Outside County; Standard Mail Regular; Standard Mail Nonprofit; Standard Mail ECR; Standard Mail NECR; Bound Printed Matter; Media Mail; and, Library Mail
- b. The revenue to be obtained from any subclass of mail is calculated from the test-year subclass costs calculated by witness Patelunas (USPS-T-12) and the cost coverage proposed by witness Moeller (USPS-T-28). Within any subclass of mail, rates are designed to reflect cost avoidance estimates associated with workshare discounts, historical rate relationships, concern for the potential impact on mailers, and other factors specific to the subclass. In designing First-Class Mail workshare discounts, I considered the high implicit cost coverage for workshare Letters and workshare Cards as indicative of possible factors that may reduce Postal Service costs that are not reflected in witness Miller's cost avoidance estimates. USPS-T-29 at 11-12. Because of

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Response to GCA/USPS-T29-22 (continued)

this high implicit cost coverage, I cannot necessarily conclude that, in this circumstance, revenue must be "made up" from other rate elements. By almost any standard, the 294.1 percent cost coverage for workshare Letters and the 335.2 percent cost coverage for workshare Cards suggest that these rate categories are making high contributions to the Postal Service's institutional costs. In fact, the contributions of these rate categories is higher than that of any mail subclass. USPS-T-28 at Exhibit-28B.

- c. See response to MMA/USPS-T29-4 Without a clear understanding of the factors underlying the increase in implicit cost coverage for workshared First-Class Mail, I cannot determine under what circumstances I would recommend a reduction of the proposed discounts to the level of estimated avoided costs

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GCA/USPS-T29-23. Please refer to page 21 of your testimony. Please state your understanding of, and provide all studies you rely upon regarding, (i) the investments by mailers in worksharing, (ii) the way(s) in which such investment costs can be recovered, (iii) the ability of mailers to recover such investment costs in a reasonable time, and (iv) the costs mailers would avoid if they reduced worksharing efforts.

RESPONSE:

- i. It is my understanding that some mailers have invested resources in order to participate in the Postal Service's workshare program. This understanding is based on conversations with Postal Service operations, costing, and mail preparation requirements analysts.
- ii. I have not studied this question.
- iii. I have not studied this question.
- iv. I have not studied this question.

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GCA/USPS-T29-24. Please refer to page 21, lines 4-5 of your testimony

- a. Is it your position that the reasoning set forth at the referenced lines is responsive to the "fairness and equity" criterion of a §3622(b)(1) of the Postal Reorganization Act?
- b. Whether or not have you answered "yes" to part a, please explain fully the criterion of "fairness" you have applied in the referenced lines.
- c. Is it your understanding that at the present time worksharing mailers generally have been aware or are on notice that worksharing discounts are normally set at more than avoided cost? If your answer is negative, please explain what circumstances would have led mailers to expect discounts greater than avoided cost.

RESPONSE:

- a. No. The referenced portion of my testimony reads: "Mailers have invested significantly in automation equipment and changed their mail processes as a result of the recent expansion in worksharing incentives, and it would be unfair to sharply reverse these incentives." USPS-T-29 at 21, lines 2-5. This is a common language use of the term "fairly" and the quotation is designed to highlight the potentially disruptive effect of large changes in the workshare incentives on a group of mailers that have contributed to the success of the Postal Service's automation program. The criteria of §3622(b) of the Postal Reorganization Act are applied at the subclass level as discussed in the testimony of witness Moeller (USPS-T-28).
- b. As discussed in the response to GCA/USPS-T29-21, I considered the impact of potential rate changes on mailers in developing the First-Class Mail rate design. In setting the workshare discounts, I evaluated all available information. This included weighing the estimated cost avoidances provided

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Response to GCA/USPS-T29-24 (continued)

by witness Miller (USPS-T-22) as well as the implicit cost coverages for single-piece and workshared mail (USPS-T-29 at Attachment A). In addition, I considered that "the Postal Service chose to target its automation program at letter-shaped mail, with the result of considerable success in reducing the costs of processing this mail." USPS-T-29 at 11. Witness Miller observes that "components of the automation program have affected the costs for all mail pieces." USPS-T-22 at 6. In light of this, it seemed to be unreasonable to sharply reduce workshare discounts (as might be suggested by a consideration of the estimated cost avoidances alone) in light of the uncertainty as to whether the estimated cost avoidances were capturing all of the factors that might be reducing Postal Service costs due to mailer participation in the workshare program.

- c. Yes, in recent dockets, the Postal Service has proposed First-Class Mail discounts that are greater than estimated avoided costs. See response to MMA/USPS-T29-2.

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GCA/USPS-T29-25. Please refer to page 21, lines 5 – 7 of your testimony

- a. Please state as precisely as possible what, in terms of piece volume, would constitute a *large portion of the workshared First-Class Mail pieces.*
- b. Please identify the operational areas in which the Postal Service could experience operational difficulties upon reversion of a large portion of workshared First-Class Mail.
- c. Please refer to page 23 of your testimony. What is your understanding of the implicit coverage proposed for automation flats?

RESPONSE:

- a. I cannot quantify what would constitute a “large” volume that might cause operational difficulties. However, if all workshared Letters reverted to single-piece Letters, that would suggest a 110 percent increase in single-piece Letters (TYAR). (= 51,322 / 46,865). As described in the response to part b, the degree of operational difficulty would vary depending on the characteristics of the mail that reverted to single-piece (barcoded, presorted), the entry profile (different locations or processing facilities) at which the mail was entered, the available capacity and equipment to process the mail at these locations, and the amount of time the Postal Service would have to reallocate existing or purchase additional resources.
- b. Redirected to witness Kingsley.
- c. I have not calculated the implicit cost coverage for Automation Flats. See response to GCA/USPS-T29-19(b).

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TO INTERROGATORIES OF GREETING CARD ASSOCIATION

GCA/USPS-T29-26. Please refer to page 25 of your testimony

- a. Please confirm that the additional-ounce cost difference to the Postal Service as between automation and non-automation mail is 0.15 cents per piece
- b. If you so confirm, please explain to what shapes of mail (e.g., letters, flats, sealed parcels) the 0.15 cents applies.

RESPONSE:

- a. Confirmed. See USPS-LR-J-58.
- b. It is my understanding that cited average costs for single-piece (13.90 cents) and presorted (13.75 cents) additional ounces are calculated as an average across all shapes of mail.

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GCA/USPS-T29-27. Please refer to your response to GCA/USPS-T29-1 Identify with specificity each individual study relied upon in the preparation of your testimony and indicate the matters of fact, if any, for which each such study was relied upon.

RESPONSE:

As indicated in the response to GCA/USPS-T-1, I cannot specify all of the documents or studies I relied on during the preparation of my testimony. With that qualification, the following list indicates, to the extent possible, the studies relied upon and the matters of fact for which each study was relied upon.

Docket No. R2001-1 Testimony and Library References

Witness	Reference	Data
Tayman	USPS-T-6 at 45-67	Contingency
Tolley	USPS-T-7 at 26-67	First-Class Mail Test-Year Volumes
Thress	USPS-T-8 at 10-32	First-Class Mail Forecasting
Patelunas	Exhibit USPS-12F & Exhibit USPS-12G	Test-year-before-rates costs
Patelunas	Exhibit USPS-12H & Exhibit USPS-12I	Test-year-after-rates costs
Miller	USPS-T-22 at 17-23, Table 1 & USPS-LR-J-60, Worksheets "FCM Letters," "FCM Cards"	Workshared First-Class Mail (letter-shaped) estimated cost avoidances
Miller	USPS-T-22 at 26-27 & USPS-LR-J-60, worksheet "FCM QBRM Savings"	Qualified Business Reply Mail estimated cost avoidances
Miller	USPS-T-22 at 28-35 & USPS-LR-J-60, worksheets "FCM Nonmach Letters," and "FCM Nonstd Surcharge"	First-Class Mail cost estimates for nonmachinable and nonstandard mail

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Response to GCA/USPS-T29-27 (continued)

Docket No. R2001-1 Testimony and Library References

Miller	USPS-T-24 at 13, Table 1 & USPS-LR-J-60 worksheets "FCM Flats," and "FCM Flats Adj"	Workshared First-Class Mail (flat-shaped) estimated cost avoidances
Moeller	USPS-T-28 at 14-22, Exhibit USPS-28A, Exhibit USPS-28B, and Exhibit USPS-28D	Application of the nine pricing criteria to First-Class Mail cost coverages
Kingsley	USPS-T-39 at 9-13	Operational impact of manual mail processing
Kingsley	USPS-T-39 at 13	Operational impact of level of presort (Mixed AADC vs. AADC)
Schenk	USPS-LR-J-58, Workbook "Lr58asp," worksheet "Table 1" and Workbook "Lr58pre," worksheet "Table 2"	Average cost per additional ounce

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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GCA/USPS-T29-28. Please refer to your response to GCA/USPS-T29-2. Did you confer with any persons outside of the Postal Service? If you did, identify each such person and the subjects addressed.

RESPONSE:

Postal Service management meets with mailers and industry representatives on an ongoing basis to discuss issues of mutual interest. To the best of my knowledge, while potential classification changes may be discussed to assess their feasibility from the mailing community's perspective, the Postal Service did not "confer" or discuss with mailers either preliminary or proposed First-Class Mail rates. With that qualification, since January 1, 2001, immediately prior to my receiving the assignment as First-Class Mail pricing witness for Docket No. R2001-1, I have participated in meetings with the following mailers or industry groups. I have listed the topics discussed to the best of my recollection.

- Baltimore Postal Customer Council: Speech on Docket No. R2000-1.
- Stamps.com (Deborah Cullen, Seth Weisberg, and Seth Oster): Postage discount for IBIP and on-line postage purchases.
- Envelope Manufacturers Association (Maynard Benjamin and others): Postcard rates.
- National Association of Presort Mailers (Joel Thomas, Jay Oxtan and others): Bulk discount for retail First-Class Mail, Docket R2000-1 modification, nonmachinable First-Class Mail, optional 3-Digit sortation, mail preparation requirements, rates for 2-ounce flats.

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Response to GCA/USPS-T29-28 (page 2 of 2)

- SmartMail (Tom Sides and others): Atlanta plant tour, Priority Mail dropshipment issues.
- Major Mailers Association (Michael Hall, Robert Bentley, Mury Salls, John Crider and others): Docket No. R2000-1 modification, nonmachinable First-Class Mail, optional 3-Digit sortation, mail preparation requirements, calculation of cost avoidances.
- Office of the Consumer Advocate (E. Rand Costich and James Callow): Additional ounce forecasting.

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GCA/USPS-T29-29. Please refer to your response to GCA/USPS-T29-5 and -7. Please provide all studies you have performed or rely upon for your testimony that quantify and/or compare the revenue effects on the Postal Service of your proposal to increase worksharing discounts with the revenue effects that would be expected under alternative levels of such discounts.

RESPONSE:

I have not performed any studies quantifying the revenue effects on the Postal Service that would be expected under alternative levels of the automation discounts. Under the Postal Service's statutorily mandated "break-even constraint," maximizing revenue is not a goal; therefore, there was no need to perform this analysis. Since the demand for workshared First-Class Mail is relatively inelastic (see USPS-T-7), I felt no need to perform independent analysis confirming that if we raised those rates, the Postal Service would obtain more revenue.

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GCA/USPS-T29-30. Please refer to your response to GCA/USPS-T29-6

- a. GCA/USPS-T29-6 did not specifically address First-Class Mail, but sought to ascertain your position on the general economic relationships involved. Would your answer to GCA/USPS-T29-6 be in the affirmative but for the particular suppositions you advance regarding the unit cost / unit revenue relationships you find characteristic of First-Class Mail?
- b. Please confirm that your testimony does not present nor does it reference any testimony quantifying the "factors such as mail characteristics or additional activities that the Postal Service does not perform (and thus cannot be 'avoided') but which do provide a benefit to the Postal Service" not quantified in Witness Miller's testimony, USPS-T22 at Table 1.
- c. Is it your position that the "mail characteristics or additional activities" that you state cannot be reflected as cost avoidances would be absent if discounts did not exceed cost savings to the Postal Service?
- d. Please identify with as much specificity as possible the factors other than worksharing which you believe could affect the differences in the implicit cost coverages that you present, as between workshared and non-workshared First Class Mail (Letters and Sealed Parcels)

RESPONSE:

- a. Any discussion of products and services other than First-Class Mail is outside the scope of my testimony. However, I believe the following generalization of my response to GCA/USPS-T29-6 can be made. If the estimated cost avoidances underlying the discounts for a class of mail are based on data that may not fully reflect the actual avoided cost to the Postal Service of customer worksharing, then a direct comparison of the worksharing discount and the estimated cost avoidance cannot be used to determine whether "mailers' perform[] some work that would be performed at less cost by the Postal Service". The key variable is whether the cost avoidance estimates reflect all factors that result in reduced Postal Service costs. In the case of workshare

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Response to GCA/USPS-T29-30 (page 2 of 2)

First-Class Mail, the high implicit cost coverage suggests that there may be unknown factors that reduce the Postal Service's costs and are not captured in witness Miller's (USPS-T-22) cost studies. I believe this is a topic that should be studied further to determine whether these factors exist. See response to MMA/USPS-T29-3A.

- b. Confirmed.
- c. No. To clarify, I do not state that "mail characteristics or additional activities . . . cannot be reflected as cost avoidances." My decision to propose discounts that exceed witness Miller's estimated cost avoidances is based on my observation that the implicit cost coverage for workshared mail has been increasing. USPS-T-29 at 11-12. One possible explanation is that the current method of estimating cost avoidances does not capture some mail characteristics or other activities that result in lower costs for the Postal Service. If a study of these issues determines that such factors exist, then it may be possible, to include them in the cost avoidance estimates.
- d. To the best of my knowledge, these factors have not been studied.
Therefore, I cannot identify them.

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GCA/USPS-T29-31. Please refer to your response to GCA/USPS-T29-10

[Sic, parts numbered as filed]

- e. Please identify and provide any and all surveys of mailers that you conducted or relied upon in the preparation of your testimony.
- f. Do you rely on witness Bernstein's testimony with respect to electronic diversion for any of the proposals in your testimony? If so, please specify which portions of Mr. Bernstein's testimony you rely on, and for which proposals.
- g. Please provide your understanding, if any, of the relationship between the costs of using e-mail and the costs of sending workshared mail.

RESPONSE:

- e. See USPS-LR-J-196 to be filed shortly.
- f. No. However, witness Bernstein discusses the issues surrounding electronic diversion which are of concern to the Postal Service.
- g. I have no understanding of the relationship between the costs of using e-mail and the costs of sending workshared mail.

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GCA/USPS-T29-32. Please refer to your response to GCA/USPS-T29-14
Please provide your understanding, if any, of the quantified amount of the
revenue changes associated with increasing the discounts by 0.5 cents

RESPONSE:

I did not prepare a rate design incorporating any discount levels other than those
which incorporate an increase of 0.5 cents in these discounts. Therefore, I
cannot quantify the revenue effect of not increasing those discounts by 0.5 cents.

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GCA/USPS-T29-33. Please refer to your response to GCA/USPS-T29-15(a)

a. Please provide

- i. your understanding, if any, of the changes in the avoided cost from those in R2000-1 using the Postal Service's methodology for estimating such costs, and
- ii. your understanding of why those cost differences have changed.

b. Is your proposed 0.5 cent increase in the discounts intended, in part, to offset the difference between the avoided costing methodology of the Postal Service and that adopted by the Postal Rate Commission?

RESPONSE:

a. i. See response to MMA/USPS-T29-6A

ii. My understanding is that witness Miller (USPS-T-22) developed these cost estimates based "an analysis of the expected test-year operating environment and the projected test-year costs which are not necessarily the same as in the Docket R2000-1 test-year." Response to GCA/USPS-T29-15(a). A complete description of the reasons for the changes in witness Miller's cost avoidance estimates can be found in his testimony, USPS-T-22.

b. No.

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GCA/USPS-T29-34. Please refer to your response to GCA/USPS-T29-15(b).
Please provide all notes of your conversations with Witness Miller

RESPONSE:

Neither witness Miller nor I have preserved any notes that we may have
taken that would have reflected the substance of our conversations.

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GCA/USPS-T29-35. Please refer to your response to GCA/USPS-T29-21. Please confirm that you did not consider the effects of a rate increase on single-piece First Class letter mail weighing one ounce or less.

RESPONSE:

Not confirmed. As I indicate in my response to GCA/USPS-T29-21, "I considered the potential impact on customers of all proposed First-Class Mail rate elements." This includes the single-piece, first-ounce, First-Class Mail rate. As discussed in my testimony, "[t]he single-piece, first-ounce, First-Class Mail rate alone accounted for about 28.3 percent of domestic mail revenues (excluding special services), more than any other class of mail." USPS-T-29 at 14. Therefore, any change in this rate has a significant effect on the overall revenue of the Postal Service. My goal in designing First-Class Mail rates was to balance the effect on customers with the need to propose rates that achieved the revenue targets resulting from witness Tayman's (USPS-T-6) revenue requirement proposal, the test-year costs estimated by witness Patelunas (USPS-T-12) and the cost coverage proposed by witness Moeller (USPS-T-28). The resulting single-piece, first-ounce, First-Class Mail rate increases 8.8 percent which is a lower percentage increase than the increase proposed for any (other than AADC) first-ounce rate for workshared letters. Response to MMA/USPS-T29-16 at 9. In addition, the resulting implicit cost coverage for single-piece Letters is 176.1 percent which is slightly less than 178.5 percent system-average cost coverage for all mail and services. USPS-T28 at Exhibit USPS-28B.

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GCA/USPS-T29-36. Please refer to your response to GCA/USPS-T29-22(a) Please provide your understanding, if any, of the quantified difference in anticipated postal revenues between what those forecast revenues would be with and without discounts that exceed estimated avoided costs.

RESPONSE:

See response to GCA/USPS-T29-32.

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GCA/USPS-T29-37. Please refer to your response to GCA/USPS-T29-22(b).

- a. Is it your testimony or understanding that revenue would not be foregone if discounts exceed the Postal Service's avoided costs
- b. Please identify and provide all accounting studies that address the accuracy with which Postal Service's costs of First-Class Mail may be subdivided to calculate a separate cost coverage for workshared letters.

RESPONSE:

- a. GCA/USPS-T29-22(b) asked "how the revenue foregone from discounts that are proposed to exceed avoided costs would be elsewhere obtained." The process of rate design, in general, does not involve simplistic trade-offs between changes in revenue from automation discounts and changes in revenue from any other rate element. In designing rates, I examined the rate relationships and relative changes in the rates paid for various types of mail to propose an overall First-Class Mail rate structure that met the cost coverage proposed by witness Moeller (USPS-T-28). The proposal to increase automation discounts was based on consideration of witness Miller's (USPS-T-22) estimated cost avoidances, the high implicit cost coverage for workshared Letters (USPS-T-29 at 11-12), the potential rate change (as compared to single-piece rates) for workshare mailers if discounts were not increased (USPS-T-29 at 12, fn. 8), and the resulting rate relationships between different rate categories. If the proposed automation discounts had not been increased by 0.5 cents, it is possible that some other rate element would be lower resulting in reduced revenue from that rate element.

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Response to GCA/USPS-T29-37 (page 2 of 2)

However, the resulting changes in rate relationships (very large increases for automation pieces) would not necessarily be reasonable.

b. Redirected to witness Patelunas.

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MMA/USPS-T29-1 Please refer to footnote 6 on page 10 of your Direct Testimony.

- A. Please fully explain the unique circumstances surrounding the Docket No. R2000-1 rates, as proposed by the Postal Service, recommended by the Commission, and modified by the Governors.
- B. Is it your understanding that these unique circumstances no longer exist? Please explain your answer.
- C. Are the unique circumstances that you refer to still present in this case? If so, how did you account for these circumstances, if at all? If not, how did you adjust your recommendations to counter these circumstances?

RESPONSE:

- A. The "unique circumstances" referenced in USPS-T-29 at 10, footnote 6 are the Governors' determination that the rates recommended by the Postal Rate Commission were not sufficient to meet the Postal Service's revenue requirement and the July 2001 modification of the R2000-1 Postal Rate Commission recommended rates and fees.
- B. Yes. These circumstances are associated with Docket No. R2000-1.
- C. No. There is an error in USPS-T-29 at 10, footnote 6. The footnote should read: "The unique circumstances surrounding Docket No. R2000-1 resulted in a decrease in the 5-Digit Automation letter discount in July 2001." With this exception, discounts for 5-Digit Automation letters have not decreased in any rate change implemented since Docket No. R94-1. See USPS-T-29, Table 2 at 11. The Postal Service does not propose a decrease in the 5-Digit Automation discount in this docket for the reasons discussed in my testimony. In fact the Postal Service proposes a half cent increase in that discount. That

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Response to MMA/USPS-T29-1 (continued)

amounts to a 5.9 percent increase in the 5-Digit Automation discount from the current level and a 3.4 percent increase in the 5-Digit Automation discount from the level recommended by the Postal Rate Commission in Docket No. R2000-1.

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MMA/USPS-T29-2 Please refer to your Direct Testimony on page 11 where you point out that notwithstanding USPS witness Miller's derived cost savings, you recommend that the workshare discounts be increased.

- A. Historically, has the Postal Service in rate cases recommended First-Class discounts that are higher than the alleged cost savings that its witnesses have estimated? Please explain your answer.
- B. Historically, has the Postal Service in rate cases predicted that the alleged cost savings that its witnesses have estimated would decrease in the future? Please explain your answer.
- C. Historically, has the Commission in rate cases found that the alleged cost savings that the Postal Service's witnesses have estimated were understated? Please explain your answer.

RESPONSE:

- A. Yes. See, for example, Docket No. R2000-1, USPS-T-33 Table 7 at 33 and Docket No. R97-1, USPS-T-32 at 27-28.
- B. No. It is my understanding that, in general, Postal Service costing witnesses project cost avoidances for the test year in any docket. However, in Docket No. R90-1, witness Callies did project estimated First-Class Mail cost avoidances beyond the test year. See Docket No. R90-1, PRC Op. at V-28, para. 5073. Witness Callies projected that, as a result of future automation plans, additional cost savings would occur "soon after the 1992 test year." Docket No. R90-1, USPS-T-14 at 26-28.
- C. Yes, differences between the Postal Service's costing methodology and the Postal Rate Commission's costing methodology have resulted in differing cost

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avoidance estimates. Compare, for example, Docket No. R2000-1, USPS-T-33 at 33 (revised 4/14/00) and Docket No. R2000-1, PRC Op. at Table 5-3. My rate proposal balances the estimated cost avoidances, with the increase in the implicit cost coverage for workshared letters by increasing the discounts by 0.5 cents above their current levels.

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MMA/USPS-T29-3 Please refer to page 11 of your Direct Testimony where you discuss reasons for proposing automation discounts that are greater than the cost savings. One reason you give is that USPS witness Miller's cost savings estimates may not reflect factors such as mail characteristics or additional activities that mailers perform that the Postal Service does not.

- A. Please describe all mail characteristics that automation letters possess that Mr. Miller's cost savings estimates may not reflect.
- B. Please describe the additional activities that mailers perform that the Postal Service does not, but which provide a benefit to the Postal Service and cannot be "avoided"?
- C. Please indicate how you have taken into account these factors in developing your specific automation rate proposals.

RESPONSE:

- A. – B. As discussed in my testimony, "the automation mail stream provides a high relative contribution to the Postal Service's institutional costs. . . . This can be seen in the relatively high implicit cost coverages for workshared mail." USPS-T-29 at 12. In my testimony, I speculate that this may be due to mail characteristics unique to the automation mail stream or additional activities that mailers perform that the Postal Service does not, and therefore that cannot be "avoided" by the Postal Service. However, to the best of my knowledge, the Postal Service has not studied the impact of either of these two factors on the cost of workshared mail.
- C. My rate proposal increases the discounts for automation letters, flats and cards by 0.5 cents. In considering the appropriate level for automation discounts, the relatively high implicit cost coverage for workshare mail was considered and led me to mitigate the rate increase for automation mail. A

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Response to MMA/USPS-T29-3 (continued)

second reason for proposing increased discounts for automation letters, flats and cards was to recognize the value of mailer worksharing in helping the Postal Service meet its automation program goals. The table below shows that 5-Digit Automation rates have decreased since 1995 despite overall increases in the single-piece First-Class Mail rates.

	R94-1 Rates (1/1/95)	R2000-1 Rates (7/1/01)	Difference	Percent
Single Piece Rate	32.0	34.0	2.0	6.3%
5-Digit Auto Discount	6.2	8.5	2.3	37.1%
5-Digit Auto Rate	25.8	25.5	-0.3	-1.2%

Source: USPS-LR-J-90

These rate incentives have encouraged mailers to participate in the automation program and change their mail processes in order to take advantage of the discounts. As noted in my testimony, I considered this historical context in designing the First-Class Mail automation letter discounts. USPS-T-29 at 10-13, 20-21.

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MMA/USPS-T29-4 Please refer to pages 11-12 of your Direct Testimony where you discuss the high implied cost coverage for First-Class workshare letters. Please also refer to footnote 7 on page 12, which discusses the implied cost coverage using the PRC costing method.

- A. In evaluating your proposed rates, did you take into account the increasing cost coverage that First-Class workshare letters have been forced to bear? Please explain your answer.
- B. Please explain why you believe it is necessary to require workshare mailers to attain a cost coverage that increases from 237.1 percent in Docket No. MC95-1 to your proposed 267 percent. Please explain your answer.
- C. Did you perform any kind of analysis that compares historic cost coverages for First-Class workshare letters over time? If so, please provide the results of such an analysis.
- D. Is there a level at which you would find that a target cost coverage is simply be too high to recommend for First-Class workshare letters? If so, please provide that level. If not, why not?

RESPONSE:

- A. Yes. In developing the proposed First-Class Mail automation rates, I considered the increasing implicit cost coverage for First-Class Mail workshared letters . USPS-T-29 at 11-12. I was concerned by the potential impact on workshare mailers if the proposed automation discounts were based on a 100 percent pass through of the estimated cost avoidances when it appears that some unknown factors may be contributing to the high implicit cost coverage. As I note in my testimony, "[t]he treatment of workshare discount in instances where they have been an important component in controlling cost is an issue ripe for longer-term investigation in First-Class Mail rate design." USPS-T-29 at 13. At the same time, I was also reluctant to increase discounts further given the lack of data on the reasons underlying

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Response to MMA/USPS-T29-4 (page 2 of 3)

the high implicit cost coverages observed for workshare mail. In weighing these factors, I determined that a reasonable proposal would be to increase First-Class Mail automation discounts by 0.5 cents. This results in a absolute increase in automation rates of 2.5 cents as compared to the increase of 3.0 cents proposed for single-piece letters. Any further reduction in the automation discounts would shift revenue burdens within First-Class Mail without adequate supporting evidence based on a clear understanding of the factors underlying the increase in implicit cost coverage for workshare mail.

- B. The implicit cost coverage for First-Class Mail workshared letters using the Postal Service's costing methodology is 294.1% in the test-year-after-rates. See USPS-T-29, Attachment A at 2. The implicit cost coverage of 267% cited in USPS-T-29 at 12, footnote 7 is based on the Postal Rate Commission's costing methodology and is presented only to facilitate comparisons across dockets. In designing rates, I did not establish an implicit cost coverage "target" for First-Class Mail workshared letters; however, the size of the implicit cost coverage and its growth over time suggest that some rate mitigation is appropriate. I chose to mitigate the impact on automation rates by increasing discounts by 0.5 cents.
- C. See USPS-T-29 at 12, footnote 7 and witness Moeller's response to DMA/USPS-T28-1.

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Response to MMA/USPS-T29-4 (page 3 of 3)

- D. As discussed in the response to MMA/USPS-T29-4B, I am not recommending an implicit cost coverage for First-Class Mail workshared letters.

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MMA/USPS-T29-5 Please refer to page 12 of your Direct Testimony where you discuss the Postal Service's concern about the rate impact on customers that have played such an important part to the success of the automation program. Based on Mr. Tolley's conclusion that First-Class workshare letters are highly inelastic, i.e., have a price elasticity of just -0.07 (USPS-T-7, page 57) why do you share the Postal Service's concern for such a rate impact.

RESPONSE:

I share the Postal Service's concern because it is possible that customers who have participated in the automation program may find new alternatives to First-Class Mail if the rate discounts established for workshared mail were significantly reduced. The success of the Postal Service's automation program has been due, in part, to continued mailer participation. The result has been low relative cost increases for First-Class Mail and correspondingly low relative First-Class Mail rate increases since the mid-1990s.

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MMA/USPS-T29-6 On page 13 of your Direct Testimony you state that "[as] efforts to encourage worksharing are successful, avoided costs appear to decline."

- A. What is the basis for this statement? Please provide copies of all studies or other documents you reviewed in arriving at that conclusion.
- B. Are you aware that First-Class workshare mailers have recently been requested to sort pallets of automation letters onto trucks so that those trucks may bypass intermediate USPS facilities and go directly to postal service hub and spoke facilities and/or airports? If no, please explain.
- C. How does a practice by mailers, such as that described in Part B, cause USPS avoided costs to decline?

RESPONSE:

- A. This statement is based on the unit cost savings calculated by Postal Service costing witnesses for automation letters as compared to Bulk Metered Mail.

Cost Savings Compared to Bulk Metered Mail

	<u>R97-1</u>	<u>R2000-1</u>	<u>R2001-1</u>
Basic	5.6976	5.178	5.117 (mixed AADC) 5.985 (AADC)
3-Digit	6.5277	6.192	6.299
5-Digit	8.1279	7.475	7.425

Sources: Docket No. R97-1, Exhibit USPS-29C at 1; Docket No. R2000-1, USPS-T-24, Table 1 at 18 (revised 4/11/2000); Docket No. R2001-1, USPS-T-22, Table 1 at 25.

- B. Mailers are not required to sort mail as described in this question. However, I am aware that local operating agreements exist between local Postal Service officials and individual mailers that may include such an arrangement. It is also my understanding that this type of agreement often provides for

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Response to MMA/USPS-T29-6 (continued)

exceptions resulting in later acceptance times for the customer's mail and other provisions that may improve customer service.

C. Redirected to witness Miller.

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MMA/USPS-T29-8 On page 14 of your Direct Testimony you state that anything less than a 3-cent increase in the basic First-Class single piece rate would impose unreasonably large rate increases on other classes and, conversely, anything more than a 3-cent increase would unfairly relieve other mail classes of their fair share of the institutional cost burden. Please provide any studies or, analyses that you reviewed before arriving at these conclusions.

RESPONSE:

I relied on witness Moeller's assessment (USPS-T-28) of the First-Class Mail cost coverage needed to meet the revenue requirement presented by witness Tayman (USPS-T-6). Given the cost coverage proposed by witness Moeller, I was unable to prepare a First-Class Mail rate design that resulted in reasonable First-Class Mail rate relationships with anything other than a 37-cent, single-piece, first-ounce, First-Class Mail rate.

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MMA/USPS-T29-9 On page 18 you indicate that, according to USPS witness Miller, nonstandard First-Class single piece letters cost the Postal Service an additional 24 cents per piece. Please explain the rationale for increasing the nonstandard surcharge by just one cent so that the surcharge recovers only about 50% of the additional cost.

RESPONSE:

I am proposing that the single-piece nonstandard surcharge be increased by one cent and that this surcharge be expanded (with an associated renaming) to include nonmachinable mail. I did not propose a higher nonmachinable surcharge because of my concern for the impact on customers not currently paying the nonstandard surcharge who would pay the proposed nonmachinable surcharge under the expanded definition. However, at the proposed level, the nonmachinable surcharge serves to signal customers about the costs associated with Postal Service processing of nonmachinable (including nonstandard mail). This is consistent with the Postal Service position on increasing the nonstandard surcharge proposal in Docket No. R2000-1. See Docket No. R2000-1, USPS-T-33 at 28-30.

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MMA/USPS-T29-10 Please explain all postal charges to mailers associated with the Postal Service's planet code program.

RESPONSE:

There are no postal rates or fees associated with the Postal Service's Planet Code program.

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MMA/USPS-T29-11 On page 22 of your Direct Testimony you discuss the current rate incentive for mailers to "split" mailings and reduce density to avoid a mandatory AADC sort.

- A. Please describe the severity of this problem in the market place
- B. Are you aware that the current rate structure provides an incentive that makes it less costly for First-Class mailers (and more costly to the Postal Service) to split one mailing that combines an invoice with advertising matter into two separate mailings consisting of 1-ounce letters mailed at First-Class automation rates and separate letters (weighing up to 3.5 ounces) to the same address at Standard automation rates? Please explain your answer.
- C. Please describe the severity of the problem suggested in part B to this interrogatory.
- D. Does the Postal Service have any plans to rectify the problem suggested in part B to this interrogatory? Please explain your answer.

RESPONSE:

- A. According to the 1997 Mail Characteristics Study, Docket No. R97-1, USPS-LR-H-185, 48.3 percent of First-Class Mail Automation Basic letters are sorted to the Mixed AADC level and 65.1 percent of First-Class Mail Automation Basic flats are sorted to the Mixed ADC level. The Postal Service is unable to estimate the extent to which mailers will consolidate mailings to achieve an AADC sort due to the deaveraging of the Automation Basic rate into a Mixed-AADC rate and an AADC rate (ADC for flats).
- B. Under the Postal Service's current rate structure, the rate charged for a two-ounce First-Class Mail Automation Basic letter is 51.0 cents which is greater than the total postage charged for a one-ounce First-Class Automation Basic letter (28.0 cents) plus the rate charged for a one-ounce Standard Mail Automation Basic letter (20.0 cents). Note: The 20.0 cent Standard Mail

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Response to MMA/USPS-T29-11 (continued)

Automation Basic letter rate applies to letters weighing up to 3.3 ounces not 3.5 ounces as stated in this question.

- C. I do not believe that this rate relationship presents a "problem." This rate relationship presents mailers with alternative methods to mail an invoice and an advertising piece. In addition to the postage paid for the two options, mailers must consider, for example, additional costs associated with preparing two mailings, the expected response rates from an advertising piece enclosed with an invoice versus a stand-alone advertising piece, and differing service standards for First-Class Mail and Standard Mail.
- D. No. See response to MMA/USPS-T29-11C.

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MMA/USPS-T29-12 Please refer to page 25 of your Direct Testimony where you discuss the additional ounce rate reduction for presorted First-Class letters. You indicate that you relied on the additional ounce cost study, "in the aggregate", as the basis for your proposal. You also note that workshare mailers can better understand a more complicated rate structure than the general public.

- A. Please describe specifically, what you mean by "in the aggregate".
- B. Did you, in any way, use as a basis for this proposed rate the cost results from that study that estimated the incremental costs by each ounce increment? Please explain your answer.
- C. Do you believe that First-Class workshare mailers could understand a rate structure that charges different amounts for different weight increments? Please explain your answer.

RESPONSE:

- A. By "in the aggregate," I mean that I rely on the average cost per additional ounce, not the marginal costs estimates for each ounce increment.
- B. No. It is my understanding that the marginal cost estimates by ounce increment are problematic.
- C. Yes, it is possible that First-Class Mail workshare mailers could understand a rate structure that charges different amounts for different weight increments.

However, this does not necessarily imply that any potential rate structure charging different amounts for different weight increments is appropriate.

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MMA/USPS-T29-13 Please refer to pages 15 and 25 of your Direct Testimony where you discuss the additional ounce rates for First-Class single piece and presorted mail. Please also refer to Library Reference USPS-LR-J-105 that derives costs separately for First-Class letters, flats and SPRs.

- A. Do you agree that, for First-Class single piece mail weighing under 3 ounces, the most important cost driver is shape? Please explain your answer.
- B. If your answer to part A is yes, do you agree that the current First-Class single piece rate structure that charges the same amount per ounce, independent of shape, fosters significant cross subsidization of flats and SPRs by letters that weigh:
1. under 1 ounce;
 2. between 1 and 2 ounces; and
 3. between 2 and 3 ounces.

Please explain your answer

- C. Has the Postal Service ever considered shape-based rates for First-Class single piece, aside from the nonstandard/nonmachinable surcharge? Please explain and provide copies of any studies or other documents in which this matter was discussed.
- D. If your answer to part C is yes, please explain how the Postal Service considered charging for the second and third ounces of a letter.
- E. Please confirm that the Postal Service has instituted a shape-based rate structure for First-Class presorted mail within its automation categories. If you cannot confirm, please explain.
- F. Assuming your answer to Part E is yes, please explain the rationale for instituting a shape-based rate structure within the automation categories of presorted First-Class mail.

RESPONSE:

- A. Redirected to witness Miller.
- B. No. It is my understanding that the marginal cost data by ounce increment and shape presented in USPS-LR-J-58 and USPS-LR-J-105 are problematic

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Response to MMA/USPS-T29-13 (continued)

and are best used in the aggregate as discussed in the response to MMA/USPS-T29-12. Therefore, I am unable to determine whether "significant cross-subsidization" does or does not exist.

- C. While shape-based rates may have been informally discussed within the Postal Service at some time in the past, to the best of my knowledge, the Postal Service has not considered a First-Class Mail, single-piece, shape-based rate design.
- D. Not applicable.
- E. Confirmed.
- F. Generally, the shape-based rate structure within the automation categories of presorted First-Class Mail is based on the additional cost of processing Automation Flats as compared to Automation Letters. However, the nature of rate design involves weighing the costs associated with different types of mail pieces with many other factors. In designing rates, I also considered the resulting rate relationships and the degree of rate complexity. To the extent possible, I chose not to complicate rate design without significantly increased value in signaling the additional cost of processing a given type of mail piece. Lastly, I was concerned with the interaction of all the rate elements and not dramatically changing the existing rate relationships to avoid unduly shifting the revenue burden among the various First-Class Mail rate elements.

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MMA/USPS-T29-15 Please refer to your response to Part B of Interrogatory MMA/USPS-T29-2 where you maintain that the Postal Service has not, historically, predicted that the *alleged cost savings that its witnesses have estimated would decrease in the future.*

- A. The following is a quotation from the Commission's Opinion and Recommended Decision in Docket No. R90-1, page V-27:

[5071] With greater automation and corresponding processing cost reductions, the Service argues that the value of mailer presortation to the Postal Service is anticipated to decline. USPS-T-18 at 107. Witness Lyons states that offering further incentives to presort mailers "sends a confusing signal as it overshadows automation-related worksharing" *Id.* at 110. This anticipated reduced role for presorted mail is reflected in the Service's proposal to keep the presort discount at the Docket No. R84-1 and R87-1 level of four cents. *Id.* at 108.

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think that USPS witness Lyons meant by his argument that the "value of mailer presortation to the Postal Service is anticipated to decline."

- B. The following is a quotation from the USPS witness Fronk's testimony in Docket No. R2000-1 that he repeated at least two times:

"If the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future." See Docket No. R2000-1, USPS-T-33 at 20 and 27.

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think USPS witness Fronk meant by his sworn testimony that "[i]f the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future."

- C. The following is a quotation from the USPS witness Miller's Direct testimony in this case (at USPS-T22, page 7) where he refers to future processing technologies for processing First-Class letters and cards:

"These enhancements could also result in worksharing related savings estimates that shrink over time, if the impact of these changes are not offset by increased wage rates."

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Response to MMA/USPS-T29-15 (page 2 of 4)

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think USPS witness Miller meant by his sworn testimony that postal technology could also result in "worksharing related savings estimates that shrink over time, if the impact of these changes are not offset by increased wage rates."

RESPONSE:

- A. Witness Lyons does not state that "the value of presortation is anticipated to decline". The cited portion of witness Lyons' Docket No. R90-1 testimony reads:

Second, the relative value of presort is declining. Simply put, most presort mail now avoids a relatively efficient automated handling as opposed to a more expensive letter sorting machine (LSM) or manual handling. As such, presort cost savings are declining. This does not mean that presort is not still important to the Postal Service. Both presortation and automation are essential to Postal Service efforts to control costs.

These trends regarding presort and automation should come as no surprise. The Commission quite correctly warned presorters at page 471 in its *Opinion from the last omnibus rate proceeding of this "eventuality."*

Docket No. R90-1, USPS-T-18 at 107.

This portion of witness Lyons' testimony is a description of what happened to presort cost savings between Docket No. R87-1 and the Docket No. R90-1 test year. Since the Postal Service used a future test year in Docket No. R90-1, the Commission's statement that "the value of mailer presortation . . . is anticipated to decline" (Docket No. R90-1, PRC Op. at V-27 para. 5071) is correct.

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In reviewing the Postal Rate Commission's Docket No. R90-1 Opinion and Recommended Decision, it became apparent that the Postal Service had projected estimated cost avoidances beyond the test year. See Docket No. R90-1, PRC Op. at V-28, para. 5073. In Docket No. R90-1, witness Callies projected that, as a result of future automation plans, additional cost savings would occur "soon after the 1992 test year." Docket No. R90-1, USPS-T-14 at 26-28. This was not reflected in my response to MMA/USPS-T29-2. An erratum will be filed shortly.

- B. The quoted portion of witness Fronk's Docket No. R2000-1 testimony is not a prediction of lower anticipated workshare cost savings. It is a conditional statement that observed "if the cost data presented . . . are the beginning of a new cost trend . . . then the mailing community might anticipate smaller discounts in the future." Docket No. R2000-1, USPS-T-33 at 20 [emphasis added]. This statement reaches no conclusions about future trends in estimated cost savings.
- C. The quoted portion of witness Miller's testimony is not a prediction of lower anticipated workshare cost savings. It is a conditional statement that observed "if the impact of these changes are not offset by increased wage rates" then "[t]hese enhancements could also result in worksharing related savings estimates that shrink over time". USPS-T-22 at 7 [emphasis added].

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This statement does not project the future net effect of changing mail processing technologies and changing wage rates but rather suggests one possible result.

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MMA/USPS-T29-16 Please refer to your answer to Part A of Interrogatory MMA/USPS-T29-4 where you note that "some unknown factors" contribute to the high implicit cost coverage for workshare letters?

- A. Please explain when the Postal Service first recognized that the workshare implicit cost coverage was high and caused by these unknown factors?
- B. What, if anything, has the Postal Service done to identify the "unknown factors" that have caused the implicit cost coverage of workshare letters to be high? If the Postal Service has not done anything to identify the "unknown factors," why has it not done so?
- C. What specific plans or recommendations does the Postal Service have for mitigating the high implicit cost coverage for workshare mailers?
- D. In your response, you indicate that any further increase in the automation discounts from those you proposed would shift the revenue burdens within First-Class Mail to the detriment of single piece. You note that you did not want to propose this without a better understanding of the reasons for the high implicit cost coverage for workshare mail. Is this a correct paraphrasing of your statement? If no please explain.
- E. Please confirm that your proposed First-Class workshare mail rates (excluding fees), compared to current rates, result in an average increase of 9.3 %. If no, please explain.
- F. Please confirm that your proposed First-Class single piece rates (excluding fees), compared to current rates, result in an average increase of 7.4 %. If no, please explain.
- G. Please confirm that the implicit cost coverages (excluding fees) for First-Class single piece and workshare mail recommended by the Commission in Docket No. R2000-1 were 153 and 248 respectively. If no, please explain.
- H. Please confirm that your proposed implicit cost coverages (excluding fees) using the PRC cost methodology for First-Class single piece and workshare mail are 158 and 267, respectively.
- I. Within First Class, do your proposed First-Class rates increase, decrease, or maintain the revenue burden for workshare mail compared to single piece? Please explain your answer.

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Response to MMA/USPS-T29-16 (page 2 of 11)

- J. Please confirm that had you proposed an average of 7.4% increase for First-Class workshare rates, as you do for single piece, the resulting implicit cost coverage for workshare mail (excluding fees) using the PRC cost methodology would be 262. If no, please explain.
- K. If you had proposed an average of 7.4% increase for First-Class workshare rates, as you do for single piece, would the workshare revenue burden within First Class increase, decrease, or remain the same. Please explain your answer.
- L. Please confirm that notwithstanding your stated concern for the high implicit cost coverage for workshare letters, you still propose to increase it further. If you cannot confirm, please explain.
- M. Please confirm that your proposed average 9.3 % average increase for First-Class workshare mail, compared to a 7.4 % average increase for single piece mail, shifts approximately \$284 million in revenue burden from First-Class single piece to workshare mail. If you cannot confirm, please explain.
- N. Please explain how your proposal to raise workshare rates 26% (9.3% / 7.4%) more than single piece rates is consistent with your stated concern, as expressed in your response to Part F of Interrogatory MMA/USPS-T29-13, "not [to] dramatically" change "the existing rate relationships" so as "to avoid unduly shifting the revenue burden among the various First-Class rate elements."

RESPONSE:

- A. I became aware of the relatively high implicit cost coverage for workshared First-Class Mail in January 2001 when I was assigned First-Class Mail rate design. As indicated in my response to MMA/USPS-T29-4, I do not know why the implicit cost coverage has increased; therefore, this may be an area to be evaluated in future studies.

It is my understanding that Postal Service management has been aware of the relatively high implicit cost coverage for workshared First-Class

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Mail since the mid-1990's and has been concerned as to whether this relatively high implicit cost coverage would persist. For example, in Docket No. MC95-1, the Postal Service's proposal to deaverage the First-Class Mail Letters and Sealed Parcels subclass into a Retail and an Automation subclass was based, in part, on the differing cost characteristics between the two market segments.

- B. It is my understanding that the Postal Service has not studied the reasons underlying the increase in the implicit cost coverage for workshared mail due to resource constraints.
- C. As I discuss in my testimony, I considered the high implicit cost coverage for workshared First-Class Mail and therefore increased the automation discounts by 0.5 cents. USPS-T-29 at 13.
- D. No. If the Automation Letter and Flats rates were reduced below the level I proposed in my testimony, all other rate elements within the First-Class Mail Letters and Sealed Parcels subclass would need to be re-evaluated. This would include: the single-piece, first-ounce rate, the additional ounce rates (both single-piece and presort), the nonmachinable surcharges (both single-piece and presort), the QBRM rate, the heavy piece discount, and the Nonautomation Presort discount. Your "paraphrase" of my statement suggests that only single-piece rates would need to be reconsidered if the automation discounts were further increased. I would not propose any

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change, beyond that proposed in my testimony, in the Automation discounts for letters and flats without an understanding of the reasons behind the increase in the implicit cost coverage for workshared Letters.

- E. Not confirmed. The proposed rate increase for First-Class Mail workshared Letters excluding fees is 9.2 percent.

Test Year Before Rates (USPS-T-29 Attachment D)

	Pieces	Revenue	Revenue per piece
Single-Piece Letters	47,899,389	20,619,369	0.4305
Workshared Letters	51,299,213	14,597,501	0.2846

Test Year Before Rates Volume at Proposed Rates (USPS-T-29 Attachment E)

Single-Piece Letters	47,899,389	22,139,109	0.4622
Workshared Letters	51,299,213	15,936,789	0.3107

Percentage Rate Increase

Single-Piece Letters	7.4%
Workshared Letters	9.2%

- F. Confirmed.
- G. Confirmed.
- H. Confirmed.
- I. The revenue burden for First-Class Mail workshared pieces within the Letters and Sealed Parcels subclass remains approximately the same. Assuming constant (test-year-before-rates) volume, workshare revenue is 41.45 percent ($=14,597,501 / [20,619,369 + 14,597,501]$) of total First-Class Mail Letters and Sealed Parcels subclass revenue under the current rates and 41.86

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percent ($= 15,936,789 / [22,139,109 + 15,939,789]$) under the proposed rates.

See response to MMA/USPS-T29-16E.

- J. Not confirmed. I did not prepare a First-Class Mail rate design resulting in a 7.4 percent increase in First-Class Mail workshare rates. Therefore, I do not have a volume forecast or a roll-forward associated with this hypothetical 7.4 percent increase in First-Class Mail workshare rates. As a result, I cannot determine what the implicit cost coverages would be under any such rate design.
- K. While I have not prepared a rate design resulting in a 7.4 percent increase for First-Class Mail workshared rates, I believe that any such rate design would result in a decrease in the workshare revenue burden within the First-Class Mail Letters and Sealed Parcels subclass. As indicated in the response to MMA/USPS-T29-16I, the revenue burden for workshared First-Class Mail Letters is approximately the same under the current and the proposed rates. Therefore, any reduction in the workshared Letters rates beyond that proposed in my testimony would result in a reduction in the workshare Letters revenue burden.
- L. Confirmed that the TYBR cost coverage is less than the TYAR cost coverage. However, if the implicit cost coverage did not increase between the test-year-before-rates and the test-year-after-rates that would imply a minimal, if any, rate increase for workshared letters. I believe it would be unreasonable for

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workshare Letters which comprise 22 percent (=14,622,580 / 65,766,829 USPS-Exhibit-28A) of the Postal Service's total test-year-before-rates domestic mail revenue to receive no rate increase when the system average rate increase is 8.7 percent. USPS Exhibit-28D.

This question incorrectly suggests that the rate design for the First-Class Mail Letters and Sealed Parcels subclass was based on a selection of implicit cost coverages for single-piece Letters and workshared Letters. As I indicated in my response to MMA/USPS-T29-4B, I did not establish cost coverage targets for either single-piece Letters or workshared Letters. Instead, in designing First-Class Mail rates, I considered the overall subclass cost coverages proposed by witness Moeller (USPS-T-28), witness Miller's estimated cost avoidances, the relative rate relationships resulting from all of the rate elements, and the relative rate changes at different weight increments.

M. Not confirmed. As discussed in the response to MMA/USPS-T29-16J, I have not prepared a rate design resulting in a 7.4 percent increase for First-Class Mail workshared rates.

N. My concern is focused on rate relationships, not absolute percentage changes in groups of First-Class Mail rates. Using the average percentage changes in single-piece and workshared First-Class Mail Letter rates, ignores the differing weight distributions between single-piece and workshared First-

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Class Mail and therefore masks the relative rate changes holding weight constant. The following tables show the percentage change in rates, by rate category for First-Class Mail. In general, with the exception of one-ounce pieces, the percentage rate increase for Automation Letters and Automation Flats are less than the percentage increase for single-piece First-Class Mail at the same weight increment.

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**Comparison of Current Rates to
Docket No. R2001-1 Proposed Rates**

Current Rates

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier-Route Letters
1	0.340	0.322	0.280	0.280	0.269	0.255	0.245
2	0.570	0.552	0.510	0.510	0.499	0.485	0.475
3	0.800	0.736	0.694	0.694	0.683	0.669	0.659
4	1.030	0.966	0.924	0.924	0.913	0.899	0.889
5	1.260	1.196					
6	1.490	1.426					
7	1.720	1.656					
8	1.950	1.886					
9	2.180	2.116					
10	2.410	2.346					
11	2.640	2.576					
12	2.870	2.806					
13	3.100	3.036					

Proposed Rates

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier-Route Letters
1	0.370	0.352	0.309	0.301	0.294	0.280	0.275
2	0.600	0.577	0.534	0.526	0.519	0.505	0.500
3	0.830	0.761	0.718	0.710	0.703	0.689	0.684
4	1.060	0.986	0.943	0.935	0.928	0.914	0.909
5	1.290	1.211					
6	1.520	1.436					
7	1.750	1.661					
8	1.980	1.886					
9	2.210	2.111					
10	2.440	2.336					
11	2.670	2.561					
12	2.900	2.786					
13	3.130	3.011					

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Comparison of Current Rates to
Docket No. R2001-1 Proposed Rates

Percentage Change

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier-Route Letters
1	8.8%	9.3%	10.4%	7.5%	9.3%	9.8%	12.2%
2	5.3%	4.5%	4.7%	3.1%	4.0%	4.1%	5.3%
3	3.7%	3.4%	3.5%	2.3%	2.9%	3.0%	3.8%
4	2.9%	2.1%	2.1%	1.2%	1.6%	1.7%	2.2%
5	2.4%	1.3%					
6	2.0%	0.7%					
7	1.7%	0.3%					
8	1.5%	0.0%					
9	1.4%	-0.2%					
10	1.2%	-0.4%					
11	1.1%	-0.6%					
12	1.0%	-0.7%					
13	1.0%	-0.8%					

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**Comparison of Current Rates to
Docket No. R2001-1 Proposed Rates**

Weight (ounces)	Single-Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	0.450	0.372	0.362	0.362	0.347	0.327
2	0.570	0.552	0.542	0.542	0.527	0.507
3	0.800	0.736	0.726	0.726	0.711	0.691
4	1.030	0.966	0.956	0.956	0.941	0.921
5	1.260	1.196	1.186	1.186	1.171	1.151
6	1.490	1.426	1.416	1.416	1.401	1.381
7	1.720	1.656	1.646	1.646	1.631	1.611
8	1.950	1.886	1.876	1.876	1.861	1.841
9	2.180	2.116	2.106	2.106	2.091	2.071
10	2.410	2.346	2.336	2.336	2.321	2.301
11	2.640	2.576	2.566	2.566	2.551	2.531
12	2.870	2.806	2.796	2.796	2.781	2.761
13	3.100	3.036	3.026	3.026	3.011	2.991

Proposed Rates

Weight (ounces)	Single-Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	0.490	0.407	0.396	0.388	0.377	0.357
2	0.600	0.577	0.566	0.558	0.547	0.527
3	0.830	0.761	0.750	0.742	0.731	0.711
4	1.060	0.986	0.975	0.967	0.956	0.936
5	1.290	1.211	1.200	1.192	1.181	1.161
6	1.520	1.436	1.425	1.417	1.406	1.386
7	1.750	1.661	1.650	1.642	1.631	1.611
8	1.980	1.886	1.875	1.867	1.856	1.836
9	2.210	2.111	2.100	2.092	2.081	2.061
10	2.440	2.336	2.325	2.317	2.306	2.286
11	2.670	2.561	2.550	2.542	2.531	2.511
12	2.900	2.786	2.775	2.767	2.756	2.736
13	3.130	3.011	3.000	2.992	2.981	2.961

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**Comparison of Current Rates to
Docket No. R2001-1 Proposed Rates**

Percentage Change

Weight (ounces)	Single- Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	8.9%	9.4%	9.4%	7.2%	8.6%	9.2%
2	5.3%	4.5%	4.4%	3.0%	3.8%	3.9%
3	3.7%	3.4%	3.3%	2.2%	2.8%	2.9%
4	2.9%	2.1%	2.0%	1.2%	1.6%	1.6%
5	2.4%	1.3%	1.2%	0.5%	0.9%	0.9%
6	2.0%	0.7%	0.6%	0.1%	0.4%	0.4%
7	1.7%	0.3%	0.2%	-0.2%	0.0%	0.0%
8	1.5%	0.0%	-0.1%	-0.5%	-0.3%	-0.3%
9	1.4%	-0.2%	-0.3%	-0.7%	-0.5%	-0.5%
10	1.2%	-0.4%	-0.5%	-0.8%	-0.6%	-0.7%
11	1.1%	-0.6%	-0.6%	-0.9%	-0.8%	-0.8%
12	1.0%	-0.7%	-0.8%	-1.0%	-0.9%	-0.9%
13	1.0%	-0.8%	-0.9%	-1.1%	-1.0%	-1.0%

NOTE: Nonmachinable surcharge included in rates for one-ounce flats.

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MMA/USPS-T29-17 Please refer to your response to Interrogatory MMA/USPS-T29-13 where you indicate that you do not know whether cross subsidization within First-Class of light weight flats by letters exists.

- A. Please confirm that a 2-ounce letter and a 2-ounce flat each pay the same postage. If no, please explain.
- B. Please explain your understanding of whether or not 2-ounce letters and flats follow separate sorting and processing operations within the Postal Service from the originating office to the destinating office. If you cannot confirm that letters and flats follow different mail processing flows, please explain
- C. Please explain your understanding of whether or not 2-ounce letters and flats incur the same processing costs by the Postal Service. Please note that USPS witness Smith finds that the average mail processing costs for First-Class letters and flats are 12.35 cents and 38.75 cents, respectively, as shown on worksheet "Summary (2)" of Library Reference USPS-LR-J-53.

Also, please note the significantly different productivities as reported and used by USPS witness Miller in his mail simulation models for letters and flats at page 46 of Library References USPS-LR-J-60 and page 25 of Library Reference USPS-LR-J-61, respectively. If you do not conclude that the processing of flats is more costly than letters, please justify your answer.

- D. In Part A of Interrogatory MMA/USPS-T29-13, you were asked whether shape is the most important cost driver for mail weighing less than 3 ounces within First-Class single piece. Please explain how, in your response to Part A, the reference to the response to OCA/USPS-2 (b), which refers to First-Class Automation mail, answers the question posed to you. If you find that your original answer was incorrect, please provide a more responsive answer.
- E. Are you familiar with a study entitled "Three-In-One Pricing--Building New Value Into the Postal System" that was performed by the Postal Service and presented in Docket No. R94-1 as Library Reference G-1777? If yes, please describe the conclusions and recommendations drawn by this study, explain the current status of those recommendations within the Postal Service and how, if at all, you took each of those conclusions and recommendations into account in the First-Class letter rates you are proposing in this case. If not, why not.

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Response to MMA/USPS-T29-17 (page 2 of 3)

RESPONSE:

- A. Not confirmed. Under the proposed rates, two-ounce letters and flats pay the same rates for the single-piece and Nonautomation Presort rate categories. For two-ounce letters and flats in the Automation rate categories, letters pay a lower rate than flats. See response to MMA/USPS-T29-16N.
- B. It is my understanding that letters and flats are sorted and processed differently.
- C. It is my understanding that, on average, the costs of processing flats is greater than the cost of processing letters.

Witness Smith has informed me that the test-year, mail processing costs for single-piece letters (12.35 cents) and for single-piece flats (38.75 cents) cited in this question are averages across all weights of single-piece letters and flats respectively. Therefore, it is my understanding that this data cannot be used to draw conclusions about two-ounce letters and flats.

Witness Miller has informed me that his mail processing models average across all weights of letters and flats. Therefore, it is my understanding that the data presented in witness Miller's testimony cannot be used to draw conclusions about two-ounce letters and flats.

My response to question MMA/USPS-T29-13B addressed the question of whether, within single-piece First-Class Mail, cross-subsidization of letters by flats occurs at differing ounce increments. I cannot answer this question

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Response to MMA/USPS-T29-17 (page 3 of 3)

absent reliable information on the costs of letters and flats by ounce increment. It is my understanding that the only information available on the costs by ounce increment for First-Class Mail letters and flats has been presented by witness Schenk. (See USPS-LR-J-58 and USPS-LR-J-105). It is my further understanding that use of this First-Class Mail cost data by shape and by ounce increment data are problematic and therefore cannot be used to draw any conclusion based on a comparison of unit costs and revenues.

D. Redirected to witness Miller.

E. No. While I am aware that a "Three-in-One Pricing" study was prepared, my understanding of its contents is limited to the description in the Postal Rate Commission's Docket No. R94-1 Opinion and Recommended Decision.

Docket No. R94-1, PRC Op. at V-5, para. 5015-5016.

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MMA/USPS-T29-18 Please refer to your response to Part E of Interrogatory MMA/USPS-T29-16 where you were asked to provide the derivation of the percent increase that you propose for workshare mailers. There you compared the unit revenues at proposed and current rates using just the before-rates volume.

- A. Please consider the following simplified situation. There is one subclass with two rate elements: category A and category B. The before and after rate volumes, rates and revenues are shown in the table below. There are also two computations for the proposed rates, one using the before rates volumes and the other using the after rates volumes. The first computation, using your method, indicates a rate increase of 25%. The second computation, that incorporates volumes shifts in response to the rates, indicates a rate increase of just 4%. Which is correct? Please explain your answer and why you chose to use before rates volumes allowing you to not confirm that you were proposing a 9.3% increase for workshare letters.

Before Rates

	Volume	Unit Rate	Total Revenue
Category A	100	\$ 0.10	\$10.00
Category B	200	\$ 0.25	\$50.00
Total	300	\$0.2000	\$60.00

After Rates

	Volume	Unit Rate	Total Revenue
Category A	180	\$0.15	\$27.00
Category B	115	\$0.30	\$34.50
Total	295	\$0.2085	\$61.50

After Rates with Before Rates Volume

	Volume	Unit Rate	Total Revenue
Category A	100	\$0.15	\$15.00
Category B	200	\$0.30	\$60.00
Total	300	\$0.2500	\$75.00

Rate Increase using Before Rates Volumes	$.25 / .20 - 1$	25%
Rate Increase Using After Rates Volumes	$.2085 / .20 - 1$	4%

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- B. Isn't the difference between the 9.2% increase for First-Class workshared letters that you found in your response and the 9.3% increase you were asked to confirm in the interrogatory caused by the fact that your 9.2% computation does not reflect market reaction to your proposed rates and the 9.3% does? Please explain your answer.

RESPONSE:

- A. The method I use in the response to MMA/USPS-T29-16 is correct. In this Docket, the Postal Service has calculated percentage changes in rates for all classes of mail holding the volume constant at the test-year-before-rates level. Your example in this question demonstrates why this is the appropriate method to use.

For Category A in your example, the rate increase is 50 percent ($= [0.15 - 0.10] / 0.10$). For Category B in your example, the rate increase is 20 percent ($= [0.30 - 0.25] / 0.25$). Therefore, a mailer whose mailing pattern does not change will face an average rate increase between 20 and 50 percent depending on its relative use of Category A and Category B. For the entire subclass in your example, if volume does not change, the average rate increase would be 25 percent ($= [0.2500 - 0.2000] / 0.2000$). This calculation is more representative of the actual rate change than the rate change calculation you present as an alternative.

By including changes in volume mix when calculating the percentage rate change, the impact of the rate change is distorted. In your example, the calculated rate change (allowing volume mix to change) is 4 percent, even

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though the rate changes for the two component parts of the subclass are 20 percent and 50 percent respectively.

B. Yes. See response to MMA/USPS-T29-18A.

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MMA/USPS-T29-19 Please refer to your response to Part J of Interrogatory MMA/USPS-T29-16 where you were asked to confirm what would happen to the cost coverage for First-Class workshare letters had you proposed an average of 7.4%, as you propose for First-Class single piece. You answered that you could not do so because you did not know what the after-rates volume would be.

- A. Why couldn't you use the before-rates volume to compute the cost coverage as you did to compute the proposed rate increase in response to Part E of Interrogatory MMA/USPS-T29-16? Please explain your answer.
- B. Why couldn't you use either the before-rates volume or the after rates-volume to compute the cost coverage, using the unit revenue and unit volume variable cost? Please explain your answer.

RESPONSE:

To clarify, my response to MMA/USPS-T29-16J states that "I did not prepare a rate design resulting in a 7.4 percent increase in First-Class Mail workshare rates. Therefore, I do not have either a volume forecast or a roll-forward associated with this hypothetical 7.4 percent increase in First-Class Mail workshare rates. As a result, I cannot determine what the implicit cost coverages would be under any such rate design." Response to MMA/USPS-T29-16J.

- A. – B. The described methods could be used to estimate the implicit cost coverage for workshared mail. MMA/USPS-T29-16J asked me to confirm that the cost coverage using the PRC methodology "would be 262;" I cannot do this without an associated volume forecast and an associated PRC-methodology, roll-forward. I would also observe that the hypothetical adjustment of workshare rates so that they increase "an average of 7.4%" is

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vague and difficult to translate into specific rate elements that could be used
to estimate revenue.

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MMA/USPS-T29-20 Please refer to your response to Part I of Interrogatory MMA/USPS-T29-16 where you claim that the revenue burden for First-Class workshare pieces within the Letters and Sealed Parcels subclass remains approximately the same. You also claim that **any** reduction in your proposed First-Class workshare rates beyond those proposed in your testimony would result in a reduction in the workshare letters revenue burden.

- A. Was it your goal to keep this revenue burden for workshare letters approximately the same? Please explain your answer.
- B. Please confirm that by using your method for computing the First-Class revenue burden under your proposed rates, you do not anticipate volume reactions to your proposed rate increases for either First-Class single piece or workshare mail. If you cannot confirm, please explain how your methodology of using just before rates volumes anticipates volume reactions to your proposed rate increases.
- C. Please confirm the following, or, if you cannot confirm, explain why not:
1. that using your method for computing the First-Class revenue burden under your proposed rates, the intra-subclass revenue shift is \$154 million, to the detriment of workshare letters.
 2. that had you used before and after rates to compute the shift in workshare mail's revenue burden, this shift increases to \$367 million. These computations are shown in the table below.

Computation of Workshare Revenue Burden Shift
(000's)

Current Rates with Before Rates Volume

	Total Revenue	% of Volume
Single Piece	\$ 20,619,369	58.55%
Workshare	\$ 14,597,501	41.45%
Total	\$ 35,216,870	100.00%

Proposed Rates with Before Rates Volume

Single Piece	\$ 22,139,109	58.14%
Workshare	\$ 15,936,789	41.86%
Total	\$ 38,075,898	100.00%

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Proposed Rates with After Rates Volume

Single Piece	\$ 21,661,130	57.57%
Workshare	\$ 15,961,755	42.43%
Total	\$ 37,622,885	100.00%

Revenue Burden Change Using Before Rates Volumes

$$(41.86\% - 41.45\%) \times 38,075,898 \quad \$ 154,212$$

Revenue Burden Change Using After Rates Volumes

$$(42.43\% - 41.45\%) \times 37,622,885 \quad \$ 366,953$$

Source: USPS-T29, Attachment D, page 1

3. that you could have recommended workshare rates that would have produced lower revenues, of up to \$154 million, and the rates would not have resulted in a reduction in the workshare letters revenue burden.
 4. that by anticipating volume reactions to prices increases (i.e. by using after rates volumes), you could have recommended workshare rates that would have produced lower revenues, of up to \$367 million, and the rates would not have resulted in a reduction in the workshare letters revenue burden.
- D. Please explain how it is possible to increase single piece letters by 7.4% and to increase workshare letters by 9.2%, but not to increase the workshare intra-subclass revenue burden.
- E. Please confirm that all First-Class mail received a 2-cent additional-ounce rate increase in July 2001, but that only workshare mail received a .2-cent additional first ounce rate as well. Please explain how, if at all, this disproportionate rate increase was factored into your decision to raise the workshare intra-subclass revenue burden even further in this case.

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RESPONSE:

To respond to this question, I assume that the column header "% of Volume" in your example should read "% of Revenue."

- A. No, although the "revenue burden" calculation provided in response to MMA/USPS-T29-16I provides an indication of how rate changes affect different groups of customers, it does not provide an absolute measure of whether a specific rate change is appropriate. In designing First-Class Mail rates to meet the cost coverage proposed by witness Moeller (USPS-T-28), I considered a number of factors including witness Miller's (USPS-T-22) estimated cost avoidances, the percentage rate changes, the rate relationships between different rate categories, the impact on customers, and operational goals.
- B. Confirmed that the method used to calculate revenue burden "assum[es] constant (test-year-before-rates) volume." Response to MMA/USPS-T29-16I.
- C.
1. Confirmed that the change in revenue burden could be estimated using this methodology. However, the desire to eliminate any change in "revenue burden" alone is not the sole criterion to be used in determining whether a given rate change is appropriate. Many other factors, including those discussed in my testimony and those discussed in the response to MMA/USPS-T26-20A, are also considered. In addition, the quantification

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of changes in “burden” between various subgroupings of First-Class Mail rate categories can be performed using measures other than changes in relative total revenue shares. For example, if changes in per-piece contribution to institutional costs were used to compute change in relative burden, the “burden” for workshared Letters will decline under the proposed rates. That is, the percentage change in per-piece contribution between the test-year-before-rate and the test-year-after-rates is greater for single-piece Letters than for workshared Letters.

Test Year Before Rates

Letters Subclass	Revenue	Costs	Contribution	Pieces	Contribution per Piece
Single-Piece	20,803,401	12,678,742	8,124,659	47,899,389	0.1696
Workshared	14,622,580	5,421,560	9,201,020	51,299,213	0.1794

Test Year After Rates

Letters Subclass	Revenue	Costs	Contribution	Pieces	Contribution per Piece
Single-Piece	21,881,825	12,426,541	9,455,284	46,865,402	0.2018
Workshared	15,990,746	5,436,662	10,554,084	51,322,082	0.2056

Source: USPS-T-29, Attachment A and Attachment C.

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Change in Contribution per Piece	
Single Piece Letters	18.95%
Workshared Letters	14.65%

2. Not confirmed. This calculation mixes changes in revenue burden from rate changes with changes in total revenue due to volume changes. Holding volume constant is designed to adjust for the volume mix changes that occur between the test-year-before-rates and the test-year-after-rates. Your calculation will result in an apparent "shift in revenue burden" if relative volume mix changes, even if rates do not change. This is particularly important because the volume of workshared Letters increases between the test-year-before-rates and the test-year-after-rates, while the volume of single-piece Letters decreases between the test-year-before-rates and the test-year-after-rates. USPS-T-7.
- Consider the following simplified example where rates do not change while volume does change.

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	Rate	Volume	Revenue	Revenue Burden
Category A	\$1.00	100	100	.500
Category B	\$1.00	100	100	.500
Total			200	

	Rate	Volume	Revenue	Revenue Burden
Category A	\$1.00	200	200	.667
Category B	\$1.00	100	100	.333
Total			300	

Using your methodology, "revenue burden" for Category A increases but no customer is paying a higher rate.

3. Confirmed that there is likely some set of rates that would have resulted in a lower percentage increase in workshare Letter rates that would have resulted in the same TYBR and TYAR "revenue burden" (as you calculate it in part 1) for single-piece Letters and workshared Letters.
4. Not confirmed. See response to MMA/USPS-T29-20C.2.

D. If rates increase more for workshare Letters, the relative revenue burden as calculated in the response to MMA/USPS-T29-16 will increase. My objective in using this calculation was to illustrate that the percentage change in this measure of revenue burden was not extremely large and that my proposed

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rate changes (including a 0.5 cent increase in the workshare discounts) resulted in a reasonable rate proposal. It was not my intent to propose the "across the board" even percentage increase in all First-Class Mail rates that would have resulted in no change in revenue burdens of various subgroupings of First-Class Mail rate categories.

- E. Confirmed that the Governors' modification of the Postal Rate Commission's Docket No. R2000-1 recommended rates for First-Class Mail Letters and Sealed Parcel subclass increased the additional ounce rate by 2 cents from 21 cents to 23 cents and that the workshare Letter discounts for all rate categories decreased 0.2 cents. Docket No. R2000-1, GOVS-LR-I-4 at 1. Not confirmed that this rate increase was "disproportionate." As the Governors explained:

Our rejection of the Commission's treatment of the revenue requirement has the consequence of requiring that we allocate additional institutional cost burden among the various subclasses and special services, including First-Class Mail Letters and Sealed Parcels. As we have explained above, it does not seem appropriate to adjust certain rate elements within this subclass. In that conclusion, we are firm. However, we are then faced with the difficult task of determining the extent to which the remaining rate elements must bear a portion of the additional cost burden resulting from our restoration of the revenue requirement. In the iterative process of determining what is fair and equitable, we find that we cannot avoid making a modest imposition on the various Letters and Sealed Parcels worksharing rate categories.

* * * * *

With these modified worksharing rates that we have designed, the Letters and Sealed Parcels subclass continues to meet the requirement that the rates for the subclass, as a whole, cover its costs, as required by

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subsection 3622(b)(3). The modified rates retain the relatively simple structure of the First-Class Mail rate schedule and the identifiable rate and classification relationships therein, as required by subsection 3622(b)(7). We consider that these very modest rate increases continue to reflect a very high degree of consideration of the value of mailer preparation, within the meaning of subsection 3622(b)(6). We have been influenced by the relatively high, implied cost coverage for workshared First-Class Mail in keeping these increases to a minimum. Accordingly, we consider that we have demonstrated proper concern for the effect of increases upon those who engage in worksharing and the availability of alternatives, as required by subsections 3622(b)(4) and (b)(5). [footnotes omitted]

Docket No. R2000-1, Governors Decision on Modification at 72-74. I used the First-Class Mail rates resulting from the Governors' decision to modify the Postal Rate Commission's Recommended Decisions as the starting point for my rate design and my determination of whether the proposed rates in Docket No. R2001-1 were appropriate.

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MMA/USPS-T29-21 Please refer to your response to Interrogatory Part L of Interrogatory MMAWSPS-T29-16 where you appear to have misunderstood the question. You were asked to confirm that, in spite of your stated concern for the high implicit cost coverage for workshare letters, you still propose to increase it further. Your answer compared your proposed implicit cost coverage to the before rates cost coverage.

- A. Please compare your proposed cost coverage (that you confirmed in response to Part H of Interrogatory MMA/USPST29-16) to the cost coverage recommended by the Commission in Docket No. R2000-1 (that you confirmed in response to Part G of Interrogatory MMA/USPS-T29-16). Please confirm that, notwithstanding your stated concern for the high implicit cost coverage for workshare letters, you are proposing to increase the implicit cost coverage for workshare letters even further in this case. If you cannot confirm, please explain.

RESPONSE:

To clarify, as I explain in the response to MMA/USPS-T29-16L, "I did not establish cost coverage targets for either single-piece Letters or workshared Letters." In addition, I did not consider implied cost coverages calculated using the Postal Rate Commission methodology in designing the proposed rates. This information is presented in my testimony only to provide an apples-to-apples comparison over a number of Dockets. USPS-T-29 at 12, footnote 7.

- A. The implied cost coverage for workshared Letters resulting from the Docket No. R2000-1 Postal Rate Commission Recommended Decision was 248. For Docket No. R2001-1, the implied test-year-after-rates cost coverage for workshared Letters (on the Postal Rate Commission's methodology) is 267 percent. USPS-T-29 at 12, footnote 7.

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Response to MMA/USPS-T29-21 (page 2 of 2)

Confirmed that the implicit cost coverage for First-Class Mail workshared Letters, on the Postal Rate Commission's methodology, will increase given the rates proposed in this Docket.

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OCA/USPS-T29-1. Please refer to your testimony at page 16, lines 13-14.

- a. Please confirm that the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- b. Please confirm that the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- c. Please provide the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge.
- d. Please provide the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge.
- e. Please confirm that the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- f. Please confirm that the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- g. Please provide the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge.
- h. Please provide the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge.
- i. Please confirm that the own-price elasticity of demand for single-piece First-Class letters is a reasonable approximation of the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge. If you do not confirm, please explain.
- j. Please confirm that the own-price elasticity of demand for workshare First-Class letters is a reasonable approximation of the own-price elasticity of demand for presort letters subject to the nonstandard surcharge. If you do not confirm, please explain.
- k. Please confirm that the own-price elasticity of demand for single-piece First-Class letters is a reasonable approximation of the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain.

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RESPONSE to OCA/USPS-T29-1 (page 2 of 4):

- I. Please confirm that the own-price elasticity of demand for workshare First-Class letters is a reasonable approximation of the own-price elasticity of demand for presort letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge.
- b. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge.
- c. The requested datum is not available. See response to OCA/USPS-T29-1(a).
- d. The requested datum is not available. See response to OCA/USPS-T29-1(b).
- e. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge.
- f. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge.
- g. The requested datum is not available. See response to OCA/USPS-T29-1(e).
- h. The requested datum is not available. See response to OCA/USPS-T29-1(f).

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RESPONSE to OCA/USPS-T29-1 (page 3 of 4):

- i. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge, I have estimated this volume using the “base-year” ratio method described in USPS-T-29 at 6. This is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper “All_r00a_n1.123”, worksheet “1 st Class” at 5).
- j. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for presort letters subject to the nonstandard surcharge, I have estimated this volume using the “base-year” ratio method described in USPS-T-29 at 6. This is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper “All_r00a_n1.123”, worksheet “1 st Class” at 5).
- k. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge, I have estimated this volume using the method in USPS-T-29 Attachment F at 3.

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RESPONSE to OCA/USPS-T29-1 (page 4 of 4):

- I. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for presort letters subject to the proposed nonmachinable surcharge, I have used the data available to estimate this volume. I have estimated this volume for Nonautomation Presort using 1997 Mail Characteristics data. For Automation Flats, the proposed nonmachinable definition is the same as the current nonstandard definition; therefore, I have estimated this volume using the "base-year" ratio method described in USPS-T-29 at 6. This estimate for Automation Flats is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper "All_r00a_n1.123", worksheet "1 st Class" at 5).

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OCA/USPS-T29-2. Please refer to your response to POIR No. 4, Question 6.

- a. Please confirm that the response calculates the "current nonstandard" single-piece volume of 412,179 as follows: $(44,198 / 47,899,389) * 46,542,265$. If you do not confirm, please explain.
- b. Please confirm that the "current nonstandard" single-piece volume should be $415,041 = (44,198 / 47,899,389) * 46,865,402$. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed. Errata to my response to POIR No. 4, Question 6 have been filed today.

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OCA/USPS-T29-3. Please refer to USPS-LR-J-130, at page 7.

- a. Please explain fully the derivation of the figures in Column (5) entitled "Implied Postage Weight per PC." Show all calculations used to derive these figures.
- b. In Column (7) entitled "Additional Ounces," please explain fully the reasoning for subtracting 1 from the figure in Column (5) to calculate the number of additional ounces.

RESPONSE:

- a. Column 5, "Implied Postage Weight per PC" is an estimate of the number of ounce increments for which postage is charged. By Accounting Period (AP), this estimate is made based on the calculated postage paid. To illustrate, a sample calculation for AP 7, FY 2000 will be provided for each rate category.

Single-Piece (AP 7 FY 2000)

Total Revenue (column 1)	\$4,511,128
Total Pieces (column 2)	4,594.690
Revenue per piece (col. 1 = col. 1 / col. 2)	\$0.98

A Single-Piece Letter weighing four ounces in FY 2000 paid a rate equal to \$0.33 for the first ounce plus \$0.22 for each of three additional ounces or \$0.99 (= \$0.33 + 3 * \$0.22). This is consistent with the calculated revenue per piece of \$0.98 in column 2. Therefore, the implied number of ounces for which postage was paid is four, as indicated in column 5.

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RESPONSE to OCA/USPS-T29-3 (continued):

Single-Piece Letters – QBRM (AP 7 FY 2000)

Total Revenue (column 1)	\$11,981,827
Total Pieces (column 2)	39,939,423
Revenue per piece (col. 2 = col. 1 / col. 2)	\$0.30

A Qualified Business Reply Mail letter weighing one ounce in FY 2000 paid a rate equal to \$0.30 for the first ounce. This is consistent with the calculated revenue per piece of \$0.30 in column 2. Therefore, the implied number of ounces for which postage was paid is one, as indicated in column 5.

Nonautomation Presort (AP 7 FY 2000)

Total Revenue (column 1)	\$74,357,929
Total Pieces (column 2)	143,022,326
Revenue per piece (col. 2 = col. 1 / col. 2)	\$0.52

A Nonautomation Presort piece weighing two ounces in FY 2000 paid a rate equal to \$0.305 for the first ounce plus \$0.22 for one additional ounce or \$0.525 (= \$0.305 + 1 * \$0.22). This is consistent with the calculated revenue per piece of \$0.52 in column 2. Therefore, the implied number of ounces for which postage was paid is two, as indicated in column 5.

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RESPONSE to OCA/USPS-T29-3 (continued):

- b. Column 5, "Implied Postage Weight per PC", includes the first ounce of weight. The additional ounce rate is only charged for the second and subsequent ounce increments. Therefore, to determine the number of additional ounces for which postage was paid, the first-ounce increment was subtracted from the "Implied Postage Weight per PC."

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OCA/USPS-T29-4. Please refer to USPS-LR-J-130, at page 8.

- a. In the section entitled "(a) First Class Mail Pieces Weighing More Than One Ounce," in the columns labeled 11-12 oz and 12-13 oz under "Single Piece," please confirm that the figures in the row "FY 1999" should be 47,753,689 (0 + 9,058,736 + 17,344,066 + 21,350,887), and 35,749,141 (0 + 6,311,986 + 12,677,179 + 16,759,976), respectively. If you do not confirm, please explain.
- b. In the section entitled "(a) First Class Mail Pieces Weighing More Than One Ounce," in the columns labeled 11-12 oz and 12-13 oz under "Single Piece," please confirm that the figures in the row "FY 2000" should be 70,677,029 (16,725,590 + 15,138,977 + 18,467,455 + 20,345,007) and 52,936,946 (12,648,304 + 11,258,541 + 13,167,838 + 15,862,262) respectively. If you do not confirm, please explain.
- c. In the section entitled "(b) Total First Class Mail Pieces," in the "Single Piece" column, please confirm that the figures in the row "FY 1999" should be 53,250,548,643 (12,254,321,505 + 13,231,821,446 + 12,497,485,998 + 15,266,919,694), the sum of FY 1999 PQ1 through PQ4. If you do not confirm, please explain.
- d. In the section entitled "(b) Total First Class Mail Pieces," in the "Single Piece" column, please confirm that the figures in the row "FY 2000" should be 51,951,152,636 (12,024,891,049 + 13,156,882,874 + 11,958,269,313 + 14,811,109,399), the sum of FY 2000 PQ1 through PQ4. If you do not confirm, please explain.

RESPONSE:

a-d. Not confirmed. For single-piece mail, RPW data by ounce increment was available for the Government Fiscal Year. Therefore, "FY 1999" refers to Government Fiscal Year 1999 and "FY 2000" refers to Government Fiscal Year 2000. The Government Fiscal Year is not the same time period as Postal Quarter 1 through Postal Quarter 4. Therefore, for any year, summing volumes by Postal Quarter is not equal to the Government Fiscal Year volume. For workshare mail, "FY1999" and "FY2000" refer to the Postal Fiscal Year.

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OCA/USPS-T29-5. Please refer to your testimony at pages 16 and 23, where discussion begins concerning the Nonmachinable Surcharge for single-piece and presort letters, respectively.

- a. Please confirm that the current 11-cent single-piece nonstandard surcharge does not cover the total additional cost of processing single-piece nonstandard pieces. If you do not confirm, please explain.
- b. Please confirm that the proposed 12-cent single-piece nonmachinable surcharge is not expected to cover the total additional cost of processing single-piece nonmachinable pieces. If you do not confirm, please explain.
- c. Please explain why mailers of single-piece nonmachinable pieces should not pay the total additional cost of processing single-piece nonmachinable pieces.
- d. Please confirm that the current 5 cent presort nonstandard surcharge does not cover the total additional cost of processing presort nonstandard pieces. If you do not confirm, please explain.
- e. Please confirm that the proposed 5.5 cent presort nonmachinable surcharge is not intended to cover the total additional cost of processing presort nonmachinable pieces. If you do not confirm, please explain.
- f. Please explain why mailers of presort nonmachinable pieces should not pay the total additional cost of processing presort nonmachinable pieces.

RESPONSE:

- a. Confirmed that the current 11-cent, single-piece, nonstandard surcharge is less than the estimated additional cost of processing single-piece, nonstandard pieces as estimated by witness Miller in this docket. See USPS-T-29 at 18.
- b. Confirmed. As indicated in my testimony, "costs for single-piece nonmachinable pieces . . . are not estimated separately. [However] even the very conservative assumption that nonmachinable, single-piece pieces costs would be no greater than the average cost for nonmachinable, nonautomation

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RESPONSE to OCA/USPS-T29-5 (continued):

presort pieces suggests that this mail imposes an additional cost of at least 12.809 cents per piece on the Postal Service.” USPS-T-29 at 18.

- c. See response to MMA/USPS-T29-9.
- d. Confirmed that the current 5-cents, presort, nonstandard surcharge is less than the estimated additional cost of processing presorted, nonstandard pieces as estimated by witness Miller in this docket. See USPS-T-29 at 24.
- e. Confirmed.
- f. I did not propose a higher nonmachinable surcharge because of my concern for the impact on customers not currently paying the nonstandard surcharge who would pay the proposed nonmachinable surcharge under the expanded definition. However, at the proposed level, the nonmachinable surcharge serves to signal customers about the costs associated with Postal Service processing of nonmachinable (including nonstandard mail). This is consistent with the Postal Service position on increasing the nonstandard surcharge proposal in Docket No. R2000-1. See Docket No. R2000-1, USPS-T-33 at 28-30.

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OCA/USPS-T29-6. Please refer to your response to OCA/USPS-T29-1.

- a. Refer to your response to part d. Please confirm that in the test year, after rates (TYAR), you have assumed that 2.01136 percent of single-piece letter mail is subject to the nonmachinable surcharge. If you do not confirm, please explain.
- b. Refer to your response to part d. Please confirm that in the test year, before rates (TYBR), the implicit volume of single-piece letter mail subject to the nonmachinable surcharge would be 964,430 ($47,899,389 * 0.0201136$). If you do not confirm, please explain.
- c. Refer to your response to part d. Please confirm that the equation for computing the implicit own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge is:

$$(49/45)^x * (0.0201136 * 47,899,389) = (0.0201136 * 46,865,402)$$

where solving for x results in the implicit own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain and show the correct equation.

- d. Refer to your response to part d. Please confirm that the implicit own-price elasticity of demand for single-piece letters subject to nonmachinable surcharge would be -0.256 (see Table 1 below). If you do not confirm, please explain and show the correct implicit own-price elasticity of demand for single-piece letters subject to nonmachinable surcharge.

Table 1
IMPLICIT OWN-PRICE ELASTICITY OF DEMAND
FOR SINGLE-PIECE
NONMACHINABLE PIECES

TYAR Single-Piece Volume	46,865,402
TYBR Single-Piece Volume	47,899,389
TYAR Nonmachinable Pieces	942,633
TYBR Nonmachinable Pieces	963,430
TYAR NM Surcharge + SP Rate	\$0.49
TYBR NS Surcharge + SP Rate	\$0.45
Implicit Own-Price Elasticity for Nonmachinable Pieces	-0.256266015

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- e. Please refer to your response to part h. Please confirm that in the TYAR, you have assumed that 24.45 percent of nonautomation presort letter mail is subject to the nonmachinable surcharge. If you do not confirm, please explain.
- f. Please refer to your response to part h. Please confirm that in the TYBR, the implicit volume of nonautomation presort letter mail subject to the nonmachinable surcharge would be 899,745 ($3,679,940 \cdot 0.2445$). If you do not confirm, please explain.
- g. Please refer to your response to part h. Please confirm that the equation for computing the implicit own-price elasticity of demand for nonautomation presort letters subject to the proposed nonmachinable surcharge is:

$$(40.7/37.2)^x \cdot (0.2445 \cdot 3,679,940) = (0.2445 \cdot 3,579,306)$$

where solving for x results in the implicit own-price elasticity of demand for nonautomation presort letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain and show the correct equation.

- h. Please refer to your response to part h. Please confirm that the implicit own-price elasticity of demand for nonautomation presort letters subject to nonmachinable surcharge would be -0.308 (see Table 2 below). If you do not confirm, please explain and show the correct implicit own-price elasticity of demand for nonautomation presort letters subject to nonmachinable surcharge.

Table 2
IMPLICIT OWN-PRICE ELASTICITY OF DEMAND
FOR NONAUTOMATION PRESORT
NONMACHINABLE PIECES

TYAR Presort Volume	3,379,306
TYBR Persort Volume	3,679,940
TYAR Nonmachinable Pieces	875,140
TYBR Nonmachinable Pieces	899,745
TYAR NM Surcharge + Presort Rate	\$0.407
TYBR NS Surcharge + Presort Rate	\$0.372
Implicit Own-Price Elasticity for Nonmachinable Pieces	-0.308358599

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Response to OCA/USPS-T29-6 (page 3 of 6)

RESPONSE:

- a. Confirmed. See USPS-T-29, Attachment F at 3.

- b. Not confirmed. If the proposed nonmachinable surcharge were applicable in the test-year-before-rates, the estimated single-piece volume it would apply to would be $963,430 (000) = 47,899,389 (000) * 0.0201136$ pieces.

- c. Not confirmed. While I am not an expert on the Postal Service forecasting models presented in the testimonies of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8), I understand that the equation in this question is incorrect for the following reasons:
 - The test-year-before-rates single-piece volume of 47,899,389 (000) pieces is based on a price index that assumes that 0.885602% of single-piece mail is subject to the 11-cent, nonstandard surcharge thereby paying a total rate of 46 cents. The remaining 1.125759% of "nonmachinable" single-piece letters (0.885602% + 1.125759% = 2.01136%) in the test-year-before-rates is assumed to pay a postage rate of 34 cents.
 - An own-price elasticity is a change holding all other things constant, and here, all other things are not being held constant. That is, the change in single-piece volume between the test-year-before-rates and

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the test-year-after-rates incorporates changes in worksharing discounts, and Cards subclass rates in addition to any change in the single-piece, first-ounce rate plus the nonmachinable (nonstandard) surcharge.

- The “base-year ratio” method of projecting volume in the test-year-before-rates and the test-year-after-rates, does not consider the responsiveness of mailers to the change in the associated rates except to the extent that the price index is changed by a change in the nonmachinable surcharge. Therefore, while the nonmachinable volume is projected for the test-year, the projected volume for the purposes of rate design would not change EVEN IF the proposed rate change were larger or smaller.

As explained in my response to OCA/USPS-T29-1(b), “[t]he Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge;” therefore, I cannot “show the correct equation” or “the correct implicit own-price elasticity of demand for single-piece letters subject to the nonmachinable surcharge.”

- d. Not confirmed. See response to OCA/USPS-T29-6(c).
- e. Confirmed. See USPS-T-29, Attachment F at 3.
- f. Confirmed. If the proposed nonmachinable surcharge were applicable in the test-year-before-rates, the estimated Nonautomation Presort volume it would apply to would be $899,745 (000) = 3,679,940 (000) * 0.2445$ pieces.

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g. Not confirmed. While I am not an expert on the Postal Service forecasting models presented in the testimonies of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8), I understand that the equation in this question is incorrect for the following reasons:

- The test-year-before-rates Nonautomation Presort volume of 3,679,940 (000) pieces is based on a price index that assumes that 1.0588721% of NonautomationPresort is subject to the 5-cent, nonstandard surcharge thereby paying a total rate of 37.2 cents. The remaining 23.391128%% of "nonmachinable" Nonautomation Presort letters (1.0588721% + 23.391128% = 24.45%) in the test-year-before-rates is assumed to pay a postage rate of 32.2 cents.
- An own-price elasticity is a change holding all other things constant, and here, all other things are not being held constant. That is, the change in Nonautomation Presort volume between the test-year-before-rates and the test-year-after-rates incorporates changes in other (e.g., Automation) worksharing discounts, single-piece letter rates, Cards subclass rates and Standard Mail rates in addition to any change in the Nonautomation Presort, first-ounce rate plus the nonmachinable (nonstandard) surcharge.
- The "base-year ratio" method of projecting volume in the test-year-before-rates and the test-year-after-rates, does not consider the

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responsiveness of mailers to the change in the associated rates except to the extent that the price index is changed by a change in the nonmachinable surcharge. Therefore, while the nonmachinable volume is projected for the test year, the projected volume for the purposes of rate design would not change EVEN IF the proposed rate change were larger or smaller.

As explained in my response to OCA/USPS-T29-1(f), “[t]he Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge;” therefore, I cannot “show the correct equation” or “the correct implicit own-price elasticity of demand for nonautomation presort letters subject to the nonmachinable surcharge.”

h. Not confirmed. See response to OCA/USPS-T29-6(g).

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OCA/USPS-2

...

- (c) Please confirm that shape should be recognized in the rate structure of First-Class Letters and Sealed Parcels, Regular. If you do not confirm, please explain.
- (d) Please confirm that a more complex rate design (different rates for each weight/shape cell) for pieces weighing over one ounce would more closely align costs with rates. If you do not confirm, please explain.

RESPONSE:

- (c) Confirmed that shape should be considered in evaluating the rate structure of First-Class Mail Letters and Sealed Parcels, Regular only to the extent indicated in the Postal Service's First-Class Mail rate proposal. At the same time, recognition of shape in rate design should be weighed with other factors. To a limited degree, shape is currently recognized in the First-Class Mail Letters and Sealed Parcels, Regular rate category through the proposed nonmachinable surcharge. This surcharge is applied to non-letter-shaped mail weighing one ounce or less, as defined in proposed DMCS §232.
- (d) Not confirmed. A more complex rate design (different rates for each weight/shape cell) for pieces weighing over one ounce would more closely align costs with rates only if sufficient data existed to accurately disaggregate costs by both weight and shape. As discussed in my testimony, "marginal cost estimates [prepared by the Postal Service and presented in USPS-LR-J-58] by ounce increments . . . provide only a

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RESPONSE TO OCA/USPS-2(d) continued:

general indication of the cost changes as weight increases,” and “use of the[se] cost differential[s] between any two ounce increments as a basis for rate design is problematic.”

USPS-T-29 at 25-26. Further disaggregations of this data by weight and shape are unlikely to result in sufficiently accurate information to use in rate design.

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OCA/USPS-3

In the First-Class Letters and Sealed Parcels subclass,

- (a) Please confirm that the additional ounce rate is designed, in part, to cover the additional costs associated with the processing and handling of nonstandard letters weighing more than one ounce. If you do not confirm, please explain.
- (b) Please confirm that the additional ounce rate is designed, in part, to cover the additional costs associated with the processing and handling of flat-shaped and nonletter/nonflat-shaped mail. If you do not confirm, please explain.

RESPONSE:

- (a) Confirmed that the First-Class Mail additional ounce rate is designed to cover the additional costs associated with the processing and handling of mail pieces weighing more than one ounce. This includes any additional costs associated with the processing and handling of mail pieces weighing more than one ounce with characteristics similar to "nonstandard" mailpieces weighing one ounce or less as defined by the current Domestic Mail Classification Schedule. Under the current definition, all nonstandard mailpieces weigh one ounce or less. As discussed in my testimony, the Postal Services is proposing to extend and rename the current definition of "nonstandard" mail pieces to include "nonmachinable" mail pieces. USPS-T-29 at 16 and 23.
- (b) Confirmed that the First-Class Mail additional ounce rate is designed to cover the additional costs associated with the processing and handling of mail pieces weighing more than one ounce. This includes any additional costs associated with the processing and handling of non-letter-shaped mail pieces.

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OCA/USPS-86. Please refer to the testimony of witness Maura Robinson (USPS-T-29) Attachments A-F.

- [a. Response provided by the Postal Service.]**
- b. Please provide the percentage figure for the "Nonmachinable Proportion" of single-piece First-Class letter-shaped mail comparable to the "Nonmachinable Proportion" of Nonautomation Presort found in Attachment F, column (2) line (a).**
- c. Please confirm that the "Nonmachinable Proportion" of single-piece First-Class letter-shaped mail is higher than the "Nonmachinable Proportion" of Nonautomation Presort. If you do not confirm, please explain.**
- d. In Attachment F, column (2) line (c), there appears the figure, 19.95 percent, representing the "Nonmachinable Proportion" of Automation Flats. Please provide the percentage figure for the "Nonmachinable Proportion" of single-piece First-Class flat-shaped mail comparable to the "Nonmachinable Proportion" of Automation Flats.**
- e. Please confirm that the "Nonmachinable Proportion" of single-piece First-Class flat-shaped mail is higher than the "Nonmachinable Proportion" of Automation Flats. If you do not confirm, please explain.**
- f. In Attachment C, column (3) line (i), please confirm that the volume of Nonautomated Presorted Letters "Nonstandard/Nonmachinable Pieces" in the test year, after rates represents a 2,246 $(875,140 / 38,966 * 100)$ percent increase from the test year, before rates. If you do not confirm, please explain.**
- g. Please discuss the assumptions that explain the increase in Nonautomated Presorted Letters "Nonstandard/Nonmachinable Pieces" from 38,968 in the test year, before rates to 875,140 in the test year, after rates.**
- h. In Attachment C, column (3) line (e), please confirm that the volume of Single-Piece Letters "Nonstandard/Nonmachinable Pieces" in the test year, after rates represents a 222 $(942,633 / 424,198 * 100)$ percent increase from the test year, before rates. If you do not confirm, please explain.**

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- i. Please discuss the assumptions that explain the increase in Single-Piece Letters "Nonstandard/Nonmachinable Pieces" from 424,198 in the test year, before rates to 942,633 in the test year, after rates.
- j. In Attachment C, columns (1), (2), and (3) please confirm that there is no increase in the proportion of Automated Presort Flats "Nonstandard/Nonmachinable Pieces" from the base year to the test year. If you do not confirm, please explain.
- k. Please discuss the assumptions that explain why there is no increase in the proportion of Automated Presort Flats "Nonstandard/Nonmachinable Pieces" from the base year to the test year.

RESPONSE:

- b. The Postal Service does not have data on the percentage of single-piece, First-Class, letter-shaped mail comparable to the nonmachinable proportion of Nonautomation Presort.
- c. Not confirmed. See the response to OCA/USPS-86(b).
- d. Under the Postal Service's proposal, there is no change in the definition or application of the current nonstandard (proposed to be renamed nonmachinable) surcharge as it applies to flat-shaped mail. 7.4 percent ($=356,886,503 / 4,844,700,614$) of single-piece, First-Class Mail flat-shaped pieces were nonmachinable/nonstandard in the base year. Compare: cell J304 to sum(cells J300::J307), workpaper "FirstShape", worksheet "RPWshape_First.xls," USPS-LR-J-112.
- e. Not confirmed. See the response to OCA/USPS-86(d).

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- f. Not confirmed. The increase in the volume reported on line Attachment C line (i) is 2146 percent [= $(875,140 - 38,966) / 38,966$] from the test-year-before-rates to the test-year-after-rates.
- g. The increase occurs because of the expansion (and associated renaming) of the current nonstandard surcharge to include nonmachinable mail and requests for manual processing. See USPS-T-29 at 23-24. The percentage of Nonautomation Presort pieces that are nonmachinable is from the 1997 Mail Characteristics Study (Docket No. R97-1, USPS-LR-H-185; also reported in USPS-LR-J-60 at 50, see response to OCA/USPS-86(a)).
- As indicated in my testimony, "[t]he proportion used for the volume of nonmachinable mail is based solely on the physical characteristics of the mail piece. Some additional (unquantified) volume would be subject to the nonmachinable surcharge as a result of manual processing requests." USPS-T29 at 24, footnote 15.
- h. Not confirmed. The increase in the volume reported on line Attachment C line (e) is 122 percent [= $(842,633 - 424,198) / 424,198$] from the test-year-before-rates to the test-year-after-rates.
-

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- i. The increase occurs because of the expansion (and associated renaming) of the current nonstandard surcharge to include nonmachinable mail and requests for manual processing. See USPS-T29 at 16-18. As noted in USPS-T29, Attachment F at 3, I have assumed that single-piece mail has the same proportion of nonmachinable mail as workshared mail in the test-year-before-rates. This assumption was necessary because the Postal Service does not have data on the percentage of single-piece mail that would be subject to the proposed nonmachinable surcharge. This is a reasonable, judgmental assumption which permits me to project the volume of single-piece First-Class Mail that would be subject to the proposed nonmachinable surcharge.
- j. Confirmed.
- k. The expansion (and associated renaming) of the current nonstandard surcharge to include nonmachinable mail and requests for manual processing only affects letter-sized mail. The applicability of the surcharge to Automation Flats has not changed. See proposed DMCS §232.

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OCA/USPS-87. Please refer to the testimony of witness Maura Robinson (USPS-T-29) Attachments A-F.

- a. In Attachment C, line (e), please confirm that the volume of Single-Piece Letters "Nonstandard/Nonmachinable Pieces" consists of letter-shape, flat-shape and nonletter/nonflat-shape pieces. If you do not confirm, please explain.
- b. In Attachment C, column (3) please confirm that Single-Piece Letters "Nonstandard/Nonmachinable Pieces" as a proportion of total Single-Piece Letters is 2.011 (942,633 / 46,865,402) percent. If you do not confirm, please explain.
- c. In Attachment C, column (3) please confirm that Nonautomated Presort Letters "Nonstandard/Nonmachinable Pieces" and Automation Presort Flats "Nonstandard/Nonmachinable Pieces" as a proportion of total Nonautomated Presort Letters, Automation Presort Letters and Flats, and Automation Carrier Route Letters is 1.985 ((875,140 + 143,545) / (3,579,306 + 46,872,325 + 870,451)) percent. If you do not confirm, please explain.
- d. In Attachment F, the note states: "Assume single-piece mail has same proportion of nonmachinable mail as workshared mail." Please explain the basis for this assumption.
- e. Please confirm that in the test year, after rates, Single-Piece Letter mail does not have the same proportion of nonmachinable mail as workshared mail. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
 - b. Confirmed.
 - c. Confirmed.
-

**RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(Redirected from the Postal Service)**

OCA/USPS-87 continued (page 2 of 2)

- d. See response to OCA/USPS-86(l). The note on USPS-T29, Attachment F at 3 is unclear. The assumption is that single-piece mail has the same proportion of nonmachinable mail as workshared mail in the test-year-before-rates.**
- e. Confirmed.**

RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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OCA/USPS-88. Please refer to the testimony of witness Maura Robinson (USPS-T-29) Attachments A-F.

- a. In the test year, please confirm that First-Class Single-Piece mail weighing less than one ounce is 99.1 percent letter-shaped, 0.8 percent flat-shaped, and 0.1 percent parcel-shaped. (See USPS-LR-J-58 at 8). If you do not confirm, please explain.
- b. In Attachment C, column (3) line (b), please confirm that 99.1 percent of line (b) is 46,127,870. If you do not confirm, please explain.
- c. In Attachment C, column (3) line (b), please confirm that 0.8 percent of line (b) is 368,782. If you do not confirm, please explain.
- d. In Attachment F, column (2) line (a) and (c), are the proportions for nonmachinable Nonautomation Presort Letters (24.45%) and Automation Flats (19.95%) respectively. Please confirm that the volume of Single-Piece Letters "Nonstandard/Nonmachinable Pieces" in Attachment C, column (3) at line (e) should be $11,351,850 (46,127,870 \cdot 24.45\%) + (368,782 \cdot 19.95\%)$. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Not confirmed. See response to OCA/USPS-86(i) for an explanation of my assumptions regarding the share of single-piece, First-Class Mail that would be subject to the nonmachinable surcharge. My calculation assumes that the share of single-piece, First-Class Mail Letters that is nonmachinable equals the TYBR nonmachinable share of ALL workshared First-Class Mail Letters (not just Nonautomation Presort and

**RESPONSES OF THE UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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OCA/USPS-88 continued (page 2 of 2)

**Automation Flats). In addition, the Nonautomation Presort rate category includes
letter-shaped, flat-shaped, and parcel-shaped mail pieces.**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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REDIRECTED FROM WITNESS KINGSLEY

OCA/USPS-T39-4. Please refer to the response to OCA/USPS-167.

- c. Refer to the response to part o., where it states that “The Test Year Before Rates volume includes only the nonstandard pieces and the Test Year After Rates [volume] includes both the *nonstandard and non-machinable* [pieces].” For the Test Year After Rates, please provide volume of pieces that are nonstandard and the volume of pieces that are nonmachinable. Show all calculations.

RESPONSE:

- c. To clarify, letter-sized nonstandard pieces are nonmachinable. The response to POIR 4, Question 6 disaggregates the test-year-after-rates volume that would pay the proposed nonmachinable surcharge for the single-piece First-Class Mail, and Nonautomation Presort rate categories into (1) pieces that would pay the proposed nonmachinable surcharge because they meet the current nonstandard definition, and (2) pieces that would pay the proposed nonmachinable surcharge because they fall under the expanded definition of “nonmachinability” proposed in this docket. By definition, First-Class Mail Automation Letters and First-Class Mail Carrier Route Letters are machinable and, therefore, not subject to the proposed nonmachinable surcharge. For Automation Flats, the proposed nonmachinability definition is the same as the current nonstandard definition. Therefore, in the test-year-after-rates, all Automation Flats projected to pay the proposed nonmachinable surcharge – 143,545 (000) pieces – do so because they fall under the current *nonstandard definition*.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

POIR-1.

The Postal Service proposes that the current basic automation tiers for First-Class Mail letters, flats and cards be disaggregated into mixed-AADC rates and AADC rates. USPS-T-29 at 20, 28. Similar proposals are made for Standard Mail Regular and Nonprofit letters. USPS-T-32 at 3. Documents presented through Mailing Online are currently eligible for the automation basic rates referenced above that are proposed to be disaggregated. See Request, Attachment A at 103-4. The Postal Service has not offered a proposal to modify the Mailing Online eligibility categories in the event that the Commission recommends the disaggregation proposals. The Postal Service is requested to provide a proposal for modifying the Mailing Online eligibility categories in the event that the disaggregation proposals are recommended, and to provide supporting documentation to justify any proposed modifications.

RESPONSE:

The Postal Service proposes that the mixed AADC (mixed ADC for First-Class Mail flats) rate apply to documents presented through Mailing Online for entry as First-Class Mail or Standard Mail Regular or Nonprofit letters. It is my understanding that errata to the Domestic Mail Classification Schedule incorporating this proposal will be filed shortly.

In Docket No. MC2000-2, Mailing Online Experiment, Postal Service witness Garvey

observed:

Which postage rates should apply to Mailing Online pieces has been a matter of close consideration throughout the program's development. A clear thrust of Mailing Online is driving out mail processing costs via automation compatibility, presortation, and destination entry. Thus, single piece rates seem inappropriate. However, the uncertainty concerning short-term volumes suggests deeper discounts are also inappropriate at this time. . . . The proposed automation basic rate categories thus constitute a conservative compromise between the deepest discounts available and none at all.

Docket No. MC2000-2, USPS-T-1 at 15-16. This logic is equally applicable to the Postal Service's current proposal to apply mixed AADC rates to Mailing Online pieces. If recommended by the Commission and approved by the Governors, the proposed mixed AADC rate will be the one step removed from single-piece rates for automation compatible pieces; this one-step removal is consistent with the current practice. By

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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RESPONSE TO POIR 1 (continued):

postponing the decision to offer deeper discounts until further data are available from the Mailing Online Experiment, this proposal maintains the "conservative compromise" discussed by witness Garvey and thus is fair and equitable.

Revised: 12/13/2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

POIR 4, Question 6

OCA/USPS-63-c requests Base Year and Test Year volume for letter shaped mail separated for manual processing. The response, filed on October 25, provides "Base Year volumes [that] include only the pieces assessed the Nonstandard Surcharge based on the current definition, and the Test Year After Rates volumes include an estimate of the additional pieces meeting the proposed nonmachineable definition." Please provide, by subclass, the volume of letter shaped mail separated for manual processing that does not satisfy these definitions. For example, First-Class letters greater than one ounce would seem to fall into this category. Also, please confirm that the requested information when added to the information provided in response to OCA/USPS-63-c provides the total volumes manually processed.

RESPONSE:

The Postal Service cannot estimate the total volume of First-Class Mail, letter-shaped pieces weighing over one ounce that would be manually processed in the test-year-after-rates. The description below outlines the available data on volumes subject to the proposed nonmachinable surcharge by rate category, shape, and weight¹.

Single-Piece Rate Category

For single-piece First-Class Mail weighing one ounce or less, the estimated volume in the test-year-after-rates that would pay the nonmachinable surcharge equals

- (i) the single-piece volume weighing one ounce or less that meets the current nonstandard definition

¹ All data in thousands of pieces.

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Response to POIR 4, Question 6 (page 2 of 5)

<u>Single Piece Volume</u>	<u>Source:</u>
415,041 current nonstandard	(a) =[USPS-T-29, Att.C at 1 col2(e) /USPS-T-29, Att. C at 1 col 2(a)] *[USPS-T-29, Att. C at 1 col (3)(a)
55,536 letter-shaped	(b) = (a)*GFY00 letter share from USPS-LR-J-112
319,880 flat-shaped	(c) = (a)*GFY00 flat share from USPS-LR-J-112
39,625 parcel-shaped	(d) = (a)*GFY00 parcel share from USPS-LR-J-112

- (ii) the single-piece volume weighing one ounce or less that would pay the proposed nonmachinable surcharge because of the expansion of the definition (527,592 pieces = 942,633 total nonmachinable USPS-T29, Att. C at 1, col. (3)(e) less 415,041 nonstandard pieces in (i) above). All of the pieces that will pay the nonmachinable surcharge because of the expanded definition are letter-shaped. See proposed DMCS §232(c). The process used to derive the estimated single-piece volume is shown at USPS-T-29, Attachment F at 3. The Postal Service has no estimates of the volume of single-piece mail for which manual processing requests are made.

Therefore, the estimated total volume of single-piece First-Class Mail to which the proposed nonmachinable surcharge would apply is 942,633 (= 583,128 letter-shaped + 319,880 flat-shaped + 39,625 parcel-shaped). All of these pieces, by definition, weigh one ounce or less.

Because there is no rate element comparable to the current nonstandard surcharge for single-piece, First-Class Mail weighing more than one ounce, the Postal Service does not have data that allows it to count the pieces with physical characteristics similar to those of pieces weighing one ounce or less that are

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Response to POIR 4, Question 6 (page 3 of 5)

subject to the nonstandard surcharge. The Postal Service also does not have data on the volume of First-Class Mail for which manual processing is requested.

Nonautomation Presort Rate Category

For Nonautomation Presort First-Class Mail weighing one ounce or less, the estimated volume in the test-year-after-rates that would pay the nonmachinable surcharge equals

- (i) the nonautomation presort volume weighing one ounce or less that meets the current nonstandard definition

<u>Nonautomation Presort</u>	<u>Source:</u>
37,900 current nonstandard	(a)=[USPS-T-29, Att.C at 1 col2(j) /USPS-T-29, Att. C at 1 col 2(f)] *[USPS-T-29, Att. C at 1 col (3)(f)]
12,745 letter-shaped	(b) = (a)*GFY00 letter share from USPS-LR-J-112
19,951 flat-shaped	(c) = (a)*GFY00 flat share from USPS-LR-J-112
5,203 parcel-shaped	(d) = (a)*GFY00 parcel share from USPS-LR-J-112

- (ii) the Nonautomation Presort volume weighing one ounce or less that would pay the proposed nonmachinable surcharge because of the expansion of the definition (159,032 pieces = 196,933 total nonmachinable USPS-T29 Att C at 1 col. (3)(j) less 39,700 nonstandard pieces in (i) above). All of the pieces that will pay the nonmachinable surcharge because of the expanded definition are letter-shaped. See proposed DMCS §232(c). The Postal Service has no estimate of the number of Nonautomation Presort pieces for which manual processing is requested. However, the mail characteristics data used to estimate the number of pieces of that are

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Response to POIR 4, Question 6 (page 4 of 5)

physically nonmachinable may be slightly overstated and therefore can be assumed to account, in part, for manual processing requests.²

Therefore, the estimated total volume of Nonautomation Presort, First-Class Mail to which the proposed nonmachinable surcharge would apply is 196,933 (= 171,177 letter-shaped + 19,951 flat-shaped + 5,203 parcel-shaped). All of these pieces, by definition, weigh one ounce or less.

Because there is no rate element comparable to the current nonstandard surcharge for Nonautomation Presort, First-Class Mail weighing more than one ounce, the Postal Service does not have data that allows it to count the pieces with physical characteristics similar to those of pieces weighing one ounce or less that are subject to the nonstandard surcharge. The Postal Service also does not have data on the volume of First-Class Mail for which manual processing is requested.

² The estimated 24.45 percent of Nonautomation Presort volume that is assumed to pay the proposed nonmachinable surcharge is based on the 1997 Mail Characteristic Study (Docket No. R97-1, USPS-LR-H-185; also reported in USPS-LR-J-60 at 50, see response to OCA/USPS-86(a)). This percentage is the share of all letter-shaped pieces, regardless of weight, that are physically nonmachinable. Therefore, it is possible that some proportion of the 24.45 nonmachinable percent of all letter-shaped pieces includes pieces weighing over one ounce. However, this percentage is likely to be very small. Of all letter-shaped Nonautomation Presort pieces, 95.6 percent weigh less than one ounce and, of the pieces weighing more than one ounce, many may be machinable.

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Response to POIR 4, Question 6 (page 5 of 5)

Automation Letters

By definition, all First-Class Mail Automation Letters are machinable.

Carrier Route Letters

By definition, all First-Class Mail Carrier Route Letters are machinable.

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POIR 4, Question 9(b)

USPS LR-J-84 presents the difference in cost of machinable and nonmachinable First-Class nonautomation presort letter shape mail as 16.5 cents.

- (b) Please verify that the only presort pieces subject to the nonmachinable surcharge would be nonautomation presort pieces.

RESPONSE:

- (b) Not confirmed. The proposed nonmachinable surcharge will apply to the Nonautomation Presort and the Automation Flats rate categories. By definition, First-Class Mail Automation Letters and Carrier-Route Letters cannot be nonmachinable. The proposed nonmachinable surcharge will apply to Automation Flats weighing one ounce or less if these pieces have dimensions greater than those specified in proposed DMCS §232 (b).

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POIR 4, Question 10

Refer to section 232 of the Proposed Changes to the DMCS.

- (a) Please define the "machinability requirements specified by the Postal Service" in specific, objective terms.
- (b) It appears that the proposed rules for applying the First-Class nonmachinable surcharge would not create a rate incentive for mailers of letters and parcels weighing more than one ounce or flat-shaped mail of any weight to design mail pieces that are machinable. Please explain the rationale for excluding these types of pieces from the incentive created by the nonmachinable surcharge.

RESPONSE:

- (a) The Postal Service is currently drafting the machinability requirements for letter-sized pieces referred to in proposed DMCS §232(c)(i). Under these draft specifications, the proposed nonmachinable surcharge would be expected to apply to letter-sized mail pieces that have any of the following physical characteristics:
 - (i) An aspect ratio (length divided by height) of less than 1.3 or more than 2.5;
 - (ii) Polybagged or polywrapped;
 - (iii) Have clasps, strings, buttons, or similar closure devices;
 - (iv) Contain lumpy items such as pens, pencils, keys, and loose coins;
 - (v) Are too rigid (does not bend easily when subjected to a transport belt tension of 40 lbs. around an 11-inch diameter turn);
 - (vi) Are too flimsy to withstand mechanized processing;
 - (vii) Have an address parallel to the shortest dimension of the mailpiece;

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Response to POIR 4, Question 10 (page 2 of 3)

- (viii) For folded self-mailers, when the folded edge is not parallel to the longest dimension, regardless of the use of tabs, wafer seals, or other fasteners;
- (ix) For booklet-type pieces; when the bound edge (spine) is not the longest edge of the piece or is not at the bottom, regardless of the used of tabs, wafer seals, or other fasteners; or
- (x) Have excessive varnish or gloss that prevents the USPS from spraying a barcode on the piece (and therefore requires a label to be placed on the piece for this purpose).

In addition, the proposed nonmachinable surcharge would apply to letter-sized pieces for which manual processing is requested (see proposed DMCS §232(c)(ii)).

- (b) To clarify, under proposed DMCS §232(b), all non-letter-shaped pieces weighing one ounce or less are subject to the current nonstandard surcharge and would pay the proposed nonmachinable surcharge. This surcharge provides a rate incentive to encourage those mailers who can to convert non-letter-shaped pieces into letter-shaped pieces and also offsets some of the additional costs of processing non-letter-shaped pieces that are physically nonmachinable.

The proposed nonmachinable surcharge does not apply to any First-Class Mail piece weighing more than one ounce. While some additional

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Response to POIR 4, Question 10 (page 3 of 3)

costs may exist to process these pieces, these costs are assumed to be recovered in the additional ounce rate.

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POIR 6, Question 12

Refer to the response to POIR 4, Question 10 (b). In the case of First-Class letters weighing more than one ounce, please provide the rationale for allowing nonmachinable letters to make a smaller contribution to institutional costs than machinable letters that are otherwise identical.

RESPONSE:

In responding to this question, I assume that "First-Class letters weighing more than one ounce" refers to all First-Class Mail Letters and Sealed Parcels subclass pieces (regardless of shape) that weigh more than one ounce.

At any weight increment greater than one ounce, the proposed rate structure does not differentiate between pieces that are "machinable" (that do meet the requirements in DMCS §232 setting aside the "one ounce or less" restriction) and those that would be "nonmachinable" (that do not meet the requirements in DMCS §232 setting aside the "one ounce or less" restriction). E.g., a "machinable," three-ounce, Nonautomation Presort piece pays the same rate as a "nonmachinable," three-ounce, Nonautomation Presort piece. As a result, to the extent that nonmachinable pieces impose greater costs on the Postal Service than machinable pieces, the contribution to institutional costs from the nonmachinable pieces would be less.

As noted in the response to POIR 4, Question 10(b), these costs are intended to be recovered in the proposed additional ounce rates. This rate averaging is designed to maintain a relatively simple rate structure. As USPS-LR-J-112 shows, significant shares of over-one-ounce pieces are

"nonmachinable" as defined by DMCS §232(b) (setting aside the one ounce restrictions) simply because of their shape.

Base Year Flats and Parcel Share of Total First-Class Mail Letters Subclass

	<u>>1-7 ounces</u>	<u>>7-13 ounces</u>
Single Piece	64%	99%
Nonautomation Presort	57%	99%
Automation Flats	100%	100%

In addition, some share of the remaining, letter-shaped pieces would be nonmachinable because they did not meet other machinability criteria of DMCS §232. Lastly, it is my understanding that letter-shaped pieces weighing over 3.5 ounces are nonmachinable.

Given the large share of over-one-ounce pieces that are nonmachinable, it is not unreasonable to design rates such that the additional ounce rate recovers the additional costs of nonmachinable pieces. This is in contrast to the situation for less-than-one-ounce pieces, where the nonmachinable surcharge is applied to a relatively small number of pieces with different mail characteristics as compared to the majority of the pieces as would be the case for a "greater than one-ounce nonmachinable surcharge".

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Robinson?

3 (No response.)

4 CHAIRMAN OMAS: This brings us to oral cross-
5 examination. Two parties have requested oral cross-
6 examination, American Bankers Association and the National
7 Association of Pre-Sort Mailers and the American Postal
8 Workers Union.

9 Mr. Hart?

10 MR. HART: Thank you, Mr. Chairman. Again, Henry
11 Hart representing the National Association of Pre-Sort
12 Mailers.

13 We have no cross-examination for Witness Robinson,
14 but would reserve the right to cross-examine if others
15 cross-examine and raise issues.

16 CHAIRMAN OMAS: All right. Thank you.

17 That brings us to the American Postal Workers
18 Union. Ms. Catler?

19 MS. CATLER: Good morning again.

20 CHAIRMAN OMAS: Good morning.

21 CROSS-EXAMINATION

22 BY MS. CATLER:

23 Q Mr. Robinson, at page 10, lines 12 to 13, in your
24 testimony you state, and I quote, that "The proposed
25 discounts must recognize the need for continued mailer

1 participation in the automation program."

2 Do you have any information about who would drop
3 out of the automation program if the discounts were not
4 raised to the extent proposed?

5 A While I cannot identify specific customers who
6 would choose not to participate in the automation program if
7 the discounts proposed in my testimony were not recommended,
8 it's my understanding from conversations with mailers and
9 postal employees that there are some mailers who feel that
10 significant reductions in the discounts would require them
11 to look at other alternatives to providing the information
12 to their customers rather than using mail services; using
13 things such as electronic communications or other methods of
14 communication.

15 Q Can you characterize the type of mailers that you
16 believe might drop out of the automation program if the
17 discounts were not raised to the extent proposed?

18 A Once again, I have not studied this specifically.
19 However, I have had indications from mailers representing
20 large commercial billers that have suggested that if the
21 discounts were significantly reduced or changed they would
22 look at other alternatives, including electronic provision
23 of things such as bills and invoices.

24 Q Do you know what proportion of the mailers in the
25 automation program pre-sort and pre-bar code their mail as

1 part of the production of that mail? In other words, people
2 like utilities who sort their mailing lists prior to
3 printing their bills so the bills are printed in sequence to
4 get favorable discounts.

5 A I'm not an expert on how the mailers or customers
6 produce their mail. The mail in the automation program when
7 it's presented to the Postal Service is expected to meet the
8 requirements of the rates that they're entering the mail
9 for.

10 Q But wouldn't you expect that there might be a
11 different reaction to changes in discounts based on the cost
12 to the mailer of pre-sorting and pre-bar coding their mail?

13 A I can't comment on the cost to mailers of
14 providing mail that is in compliance with the requirements
15 of the automation program. Presumably, there may be some
16 differences in those costs, and that may affect the economic
17 decisions of those mailers. However, I don't know to what
18 extent those costs differ based on the way the mailers
19 prepare their mail.

20 Q So when you state that the proposed discounts must
21 recognize the need for continued mailer participation in the
22 automation program, you haven't in any way looked at the
23 reactions of different types of mailers with different
24 methods of getting their mail prepared -- pre-sorted,
25 pre-bar coded, different types of mailers -- would have to

1 changes in the discount program? Is that correct?

2 A The sentence here in my testimony is recognizing
3 the fact that economic incentives have been provided to the
4 mailers through the discount program to provide mail that is
5 bar coded and automation compatible. Those incentives have
6 resulted in a growth in the work share mail and first class
7 mail since the mid 1990s, particularly when the discounts
8 were increased as a result of MC95-1.

9 I have not specifically examined the
10 responsiveness of individual mailers to changes in those
11 discounts, although that is somewhat incorporated in the
12 testimony of Witnesses Thress and Tolley in the forecasting
13 models.

14 Q Do you think that those mailers who pre-sort and
15 pre-bar code their mail in a pre-production way rather than
16 having it pre-sorted or pre-bar coded after the mail is
17 produced, do you think that those who do it in a pre-
18 production way will stop doing these things if there is no
19 discount?

20 A As I said, I'm not an expert on how mailers
21 produce mail. I can't evaluate whether differences in how
22 those mail pieces are produced would change the behavior of
23 the mailers under different scenarios.

24 However, the Postal Service has been clearly
25 sending economic signals to the mailers about the value of

1 pre-sortation and automation in an effort to get a mail
2 stream that is as automation compatible as possible.

3 Q But you haven't studied at all whether at this
4 point you need to continue to provide those incentives to
5 continue to have mailers pre-sort and pre-bar code before
6 the mail is given to the Postal Service?

7 A The Postal Service believes those incentives need
8 to be continued to provide the economic signals of the value
9 of pre-sortation and automation to the Postal Service.

10 Q Right.

11 A I have not specifically examined the cost
12 structure of individual mailers participating in the
13 automation program.

14 Q Right. And what I'm trying to get at is what is
15 the basis for that belief? Are you telling me that there is
16 no basis for that belief?

17 A No, I'm not.

18 Q That there are no studies? There are no studies
19 that will go and support your conclusion that you need to go
20 and keep these discounts high in order to continue to have
21 people pre-bar coding and pre-sorting?

22 A The structure of the discount is designed to
23 provide information to the mailing community about the costs
24 of the Postal Service bar coding/sorting mail. In the event
25 that it is less expensive for a mailer to do that work, they

1 should be able to notice that from the signals and make an
2 economic decision that best meets their business needs.

3 Our intent in designing the rate is to provide
4 those economic signals to allow the mailers to make the
5 choices that are most reasonable for them.

6 Q Okay. Have you determined the elasticities for
7 different types of pre-sorters, those who pre-sort as part
8 of the production process versus those who pre-sort after
9 the mail pieces have been produced?

10 A I've not estimated any elasticities within my
11 testimony. The estimation of elasticities is in the scope
12 of Witnesses Tolley's and Thress' testimony on the
13 forecasting methodology.

14 Q But are you aware of whether they have estimated
15 differential elasticities --

16 A Not to my knowledge.

17 Q -- for these two groups of pre-sorters? Thank
18 you.

19 You acknowledge at Footnote 6 on the bottom of
20 page 10 and at Table 2 on the top of page 11 that the five
21 digit automation letter discount decreased as a result of
22 Docket No. R2000-1.

23 A Uh-huh.

24 Q Please describe in detail the damage done to the
25 automation program by the decrease in the five digit

1 automation letter discount from Docket No. R2000-1.

2 A First to clarify, the reduction in the automation
3 letter discount in July, 2001, was a result of the
4 governors' decision to modify the rates recommended by the
5 Postal Rate Commission in that docket.

6 Given the events of the past fall, I think it
7 would be very difficult to try and distinguish what the
8 impact of this rate change would be from other national
9 events. I'm not aware of any study that has attempted to do
10 that.

11 Q Can you confirm that the volume for five digit
12 automation letters increased since R2000-1?

13 A For what time period?

14 Q Well, isn't it true that the automation pre-sort
15 volume increased 4.4 percent in the first quarter of FY 2002
16 over the first quarter of FY 2001?

17 A I don't know.

18 Q Assuming that I'm correct and that in fact this
19 has occurred, is this increase in volume consistent with
20 your theory that larger discounts are needed for continued
21 mailer participation in the automation program?

22 A Would you provide that number again, please?

23 Q A 4.4 percent increase in the first quarter of FY
24 2002 over the first quarter of FY 2001 in the automation
25 pre-sort volume.

1 A The question you're asking is requiring me to
2 effectively testify to the effect of the rate changes within
3 the forecasting models.

4 I have not prepared those models, and I'm not an
5 expert on those models, but, based on what I know about
6 Witness Tolley and Witness Thress' testimony, it takes some
7 time for those rate effects to be incorporated. I don't
8 think based on one quarter of data we can make any general
9 statement such as you have.

10 Q Okay. I understand that. Thank you.

11 On the top of page 10, lines 2 through 4, you
12 state that, "Setting discounts to compensate mailers only
13 for the cost avoided by the Postal Service provides bulk
14 mailers an incentive to pre-sort or apply a bar code only if
15 they can do so at lower cost than the Postal Service."

16 This would promote overall economic efficiency,
17 wouldn't it?

18 A If discounts are set at a rate that represents the
19 cost avoided by the Postal Service for the work the mailers
20 are provided, the intent of that is to increase economic
21 efficiency.

22 However, throughout my testimony and the
23 interrogatory responses that have been provided in this
24 docket, looking at the implicit cost coverage for work share
25 mail there is some suggestion that the size of that implicit

1 cost coverage, which is about 294 percent for work share
2 letters, suggests there are some elements that are not being
3 captured within the work share discounts that may reflect a
4 cost savings to the Postal Service.

5 Q I don't believe you've answered my question. What
6 I've asked you is setting the discount at the level of cost
7 avoided would promote overall economic efficiency, wouldn't
8 it?

9 A Setting the level at the correct level of cost
10 avoided, assuming that your measure of cost avoidance
11 captures all possible savings by the Postal Service of the
12 mailers pre-sorting and bar coding and providing automation
13 compatible mail, would promote economic efficiency, yes.

14 Q Okay. Good. Yet on page 11, lines 10 to 12, you
15 state that, and I quote, "A departure from the incentives
16 already established may jeopardize the gains that reduced
17 overall operating cost for mailers." First, what do you
18 mean exactly by this statement?

19 A While I'm not the operations witness, it's my
20 understanding that the Postal Service has targeted its
21 automation program at letter mail with a result of reducing
22 costs for first class mail letter particularly. If this
23 mail were to become less automation compatible, less bar
24 coded, less sorted, the possibility exists for the cost of
25 that mail stream being driven upward.

1 Q Are you saying that mailers should be subsidized
2 by the Postal Service if they cannot pre-sort or pre-bar
3 code for less than the cost avoided by the Postal Service
4 for accomplishing the same end?

5 A No, I'm not.

6 Q Then maybe I still don't understand the point
7 you're trying to make there then.

8 A The Postal Service's automation program is a
9 partnership with its mailers. They are providing high
10 quality mail that allows us to automate a large portion of
11 our system. Those gains from automation benefit both those
12 mailers participating in the automation programs and those
13 who do not, simply the overall increase in automation
14 compatibility.

15 Q I'm still not sure that I understand how this
16 statement on page 11 squares with your statement on page 10
17 that setting discounts to compensate mailers only for the
18 cost avoided by the Postal Service provides bulk mailers an
19 incentive to pre-sort or apply a bar code only if they can
20 do so at lower cost than the Postal Service.

21 A I think we're looking at two different points in
22 the two different statements. In the statement on page 10,
23 our goal in setting the discounts for work share mail is to
24 indicate to the mailers what the costs of the Postal Service
25 are of pre-sorting and bar coding the mail.

1 Now, being very careful to realize that the cost
2 avoidances are one factor in the rate design, and we're
3 considering a number of other factors as has been explained
4 in my testimony, the statement on page 11 is recognizing the
5 historical fact that the Postal Service's automation program
6 has largely been targeted at letter mail, and the
7 participation of mailers within the work share program has
8 enabled the Postal Service to expand that automation
9 program.

10 If a significant portion of that mail no longer
11 met the requirements of the automation program, it's my
12 understanding that that would be upward pressure on the cost
13 of processing all first class mail.

14 Q But you've done no studies to determine or are not
15 aware of any studies to determine what the elasticities are
16 that would predict whether there would be a decrease in the
17 proportion of mail that's pre-sorted and pre-bar coded
18 should the discount decrease. Is that correct?

19 A That is correct in that I have not performed those
20 studies. However, that's a subject of Witness Tolley and
21 Witness Thress' studies, who have performed extensive
22 analysis of the elasticities of work share mail.

23 Q But we've talked before already that they don't
24 distinguish, to your knowledge, between the different types
25 of pre-sorting and pre-bar coding to go and figure out

1 whether there are differential elasticities, nor do they
2 study the proportion of the pre-sort and pre-bar coding that
3 is done pre-production and which part is done post
4 production. Is that correct?

5 A To the best of my knowledge, that hasn't been
6 studied. However, I'm not sure from the Postal Service
7 perspective of looking at the mail it's receiving that the
8 level of detail there has necessarily been needed. We're
9 not making the distinction in our rate design between how
10 mailers prepare their mail specifically.

11 Q But if you're worried that there might be a drop
12 off in the amount of pre-sorted and pre-bar coded mail
13 either absolutely or proportionately, I would think that you
14 would want to know how that change in incentive would affect
15 very distinctly different types of pre-sorters and pre-bar
16 coders.

17 A Maybe I need to clarify my previous statement.
18 I'm not aware of any studies that have specifically looked
19 at the elasticity as you asked.

20 There are a large number of market research
21 studies that have been performed within the Postal Service
22 on how different groups of customers will react to changes
23 in price incentives. I'm not familiar with all the details
24 of that, but that is an issue of concern to the Postal
25 Service.

1 Q And do any of those studies focus on different
2 types of pre-sorters or pre-bar coders?

3 A I can't think of a specific example, but it would
4 not surprise me if they did.

5 Q And you're not aware of any of those studies being
6 parts of any library references in this case or prior cases,
7 are you?

8 A I don't recall any specifically, no. I'm not sure
9 that we've been asked that question.

10 Q Is it fair to characterize your statement on page
11 11 where you say that a departure from the incentives
12 already established may jeopardize the gains that reduced
13 overall operating costs for mailers as really saying that
14 you don't want to reduce the pre-sort or pre-bar code
15 discounts?

16 A No, I would not characterize that statement that
17 way. The rates I proposed in this docket are based on an
18 analysis of all of the factors surrounding the category rate
19 elements involved. There are rate reductions proposed in
20 some instances.

21 Q Right, but when we're talking here about the
22 pre-sort and the pre-bar code discount you appear to be
23 arguing that any reduction in that discount, whether it is
24 justified by current cost avoided data or not, would send
25 the wrong incentive and might jeopardize the gains that

1 reduced overall operating costs for mailers.

2 Isn't that really saying that at least for those
3 discounts you don't believe that they should be reduced?

4 A In designing the discounts, I looked at the cost
5 avoidances provided by Witness Miller. Those provided me
6 once piece of information in designing the rates.

7 I also looked at the very high implicit cost
8 coverage for work share letters and work share cards
9 respectively. Those suggest, along with other factors, that
10 reducing the discounts in this case was not appropriate.

11 Q Your testimony has not been revised to reflect the
12 additional two-tenths of a cent increase on the three and
13 five digit rates that are included as part of the current
14 proposed settlement agreement.

15 In light of your statements that you don't think
16 that the prior discounts should be reduced, how can you
17 justify the increase in the three and five digit pre-sort
18 discounts added as part of the settlement process?

19 A My testimony is supporting the rates proposed by
20 the Postal Service in the original filing in this docket.

21 I understand that the three digit and five digit
22 automation discounts as a result of consultations between
23 the Postal Service and mailers are proposed to be increased
24 an additional two-tenths of a cent. I don't find that to be
25 unreasonable, given the analysis I've done in my testimony.

1 However, my testimony is not proposing those discounts.

2 Q On page --

3 CHAIRMAN OMAS: Excuse me. Would you speak up a
4 little bit?

5 MS. CATLER: Oh, I'm sorry. I'm sorry.

6 BY MS. CATLER:

7 Q On page 11, lines 16 through 18, and page 12, line
8 1, you state that Witness Moeller's cost-avoidance estimates
9 "may not reflect factors such as mail characteristics or
10 additional activities that the Postal Service does not
11 perform (and thus cannot be 'avoided') but which do provide
12 a benefit to the Postal Service." To what mail
13 characteristics are you referring?

14 A My understanding of Witness Moeller's testimony is
15 that he has estimated the cost avoidances based on a model
16 of costs avoided by the Postal Service. In looking at the
17 data available about first-class mail, work-share letters,
18 it became clear that there is a very high implicit cost
19 coverage for first-class letters, suggesting that this is
20 mail that is very cost effective for the Postal Service to
21 handle. The specific studies in order to quantify the
22 reasons behind that increase in the implicit cost covering
23 over time and the magnitude of the implicit cost coverage
24 right now have not been done, so I am unable to specifically
25 quantify specific mail characteristics or specific

1 activities that mailers may be doing that provide a benefit
2 to the Postal Service.

3 Q So you're saying here that there may be mail
4 characteristics or additional activities that the Postal
5 Service doesn't perform, but you have no idea what they
6 might be.

7 A The high implicit cost coverage for work-share
8 letters and cards, respectively, suggests that that would be
9 an area that would merit future studies. Those studies have
10 not been completed -- have not been started. So, therefore,
11 I can't quantify specifically what those factors or
12 characteristics would be.

13 Q And you have no idea of what mail characteristics
14 or additional activities might possibly provide a benefit to
15 the Postal Service but not be included in the cost avoided
16 at this point.

17 A We have not studied specifically what those mail
18 characteristics would be, but we are looking at a grouping
19 of mail that has an implicit cost coverage that's
20 significantly above the cost coverage, for example, of any
21 other class of mail.

22 Q On page 12, lines 12 through 14, you state that
23 "if the Postal Service rigidly adhered to a policy of 100
24 percent passthroughs of avoided costs, automation discounts
25 would decrease by up to 13 percent." What do you believe

1 would be the consequences of rigidly adhering to a policy of
2 only a passthrough of avoided costs? In other words, what
3 do you believe would happen if the discounts were set at the
4 levels you indicate in your footnote number eight?

5 A In footnote number eight I indicate that 100
6 percent passthrough for the five-digit automation discount
7 would result in a discount of approximately 7.4 percent, or
8 a 16 percent increase in the five-digit automation rate.
9 Any increase in the rate in a mail category that has a
10 relatively inelastic demand would be expected to reduce the
11 quantity of that product. The specific quantification of
12 the responsiveness to a change in price is the subject of
13 Witness Tolley's and Witness Thress's testimony. However,
14 in looking at the discounts and the appropriate discounts to
15 propose in this case, I was not only looking at Witness
16 Moeller's estimated cost avoidances; I was looking at the
17 high implicit cost coverage, the relative size of the rate
18 changes, whether it was reasonable to have a 16 percent
19 increase for automation letters in a mail category that has
20 a high implicit cost coverage, and all of the other factors
21 surrounding this issue.

22 Rate design is not a mechanical process of passing
23 through 100 percent of cost avoidances. What it is is a
24 judgmental assessment of the various factors surrounding the
25 rate category, the discount, looking at a number of

1 different things.

2 Q I don't think you've answered my question. What
3 do you believe would be the consequences of rigidly adhering
4 to a policy of only a passthrough of avoided costs?

5 A I believe I stated, based on my understanding of
6 Witness Tolley and Thress's forecasting models, an increase
7 in the rate for a product would result in a reduction of the
8 volume of that product.

9 Q But you haven't looked to see where that volume
10 would migrate to or whether this would be volume that would
11 be lost to the Postal Service.

12 A We're getting outside the scope of my testimony.
13 My understanding of Witness Tolley's and Thress's models is
14 that there might be some migration to other rate categories
15 or elsewhere, but there would probably be a reduction in
16 that volume.

17 Q At the bottom of page 20, lines 9 to 14, and the
18 top of page 21, lines 1 through 2, you indicate that the
19 passthroughs and discounts in Table 3, those for automation
20 letters were selected to balance several goals, including
21 the five listed here.

22 A Uh-huh.

23 Q Now the settlement proposes to increase two of the
24 discounts for automation letters, raising the three-digit
25 discount from 7.6 cents to 7.8 cents and the five-digit

1 discount from 9 cents to 9.2 cents. Can you please explain
2 how each of these five goals are met with these two
3 increases in discounts?

4 A Let me see if I understand the question. You're
5 asking me to explain how the proposed settlement rates meet
6 the goals listed on pages 20 and 21?

7 Q Yes.

8 A My testimony is not proposing the settlement
9 rates, although I am aware of what they are. In general, I
10 believe that the settlement rates are consistent with these
11 goals. I have not gone through each of these factors with
12 those settlement rates, and I've not seen an analysis that
13 specifically does this. However, the change, for example,
14 in the revenue resulting from the settlement rates is
15 relatively small. It would not significantly change the
16 cost coverage as compared to that proposed by Witness
17 Moeller. It recognizes the value of mailer work sharing.
18 They seem to be consistent with these goals. We can go
19 through the list, but basically those rates do not conflict
20 with these goals.

21 Q Well, let's look at the first one.

22 A Okay.

23 Q What is the cost-coverage target provided by
24 Witness Moeller for -- I guess it's for first class?

25 A Witness Moeller has provided two cost-coverage

1 targets for the test year after rates. He is proposing two
2 cost coverages. For first-class mail letters that's 212
3 percent. For first-class mail cards subclass it's 158.7
4 percent.

5 Q Okay. If these two discounts are increased, will
6 the Postal Service still meet the cost-coverage target
7 provided by Witness Moeller?

8 A I have not calculated the cost coverage based on
9 the settlement rates. However, it's my understanding that
10 the settlement proposal in first-class mail has a relatively
11 minimal impact on the revenue. Therefore, I don't believe
12 that the cost coverages would be significantly different.

13 Q What is your understanding of a relatively minimal
14 impact on the revenue?

15 A Out of a total first-class mail test year after
16 rates revenue of \$38.92 billion without a volume impact it's
17 my understanding that the settlement rates will reduce
18 revenue by approximately \$80 million.

19 Q Now you've said that you're not sponsoring these
20 increases in rates. Is there another witness that is
21 sponsoring this increase in rates in these two categories?

22 MR. TIDWELL: Not that I'm aware of. This witness
23 has proposed the rates that are submitted in the request,
24 and she is answering questions about the settlement rates
25 that are proposed by the Postal Service and other parties.

1 If you've got questions about the settlement rates, I
2 suppose in first class, at least, this is as good a witness
3 as we can make available to you.

4 MS. CATLER: But there is no witness that is
5 specifically supporting and endorsing the rates that are
6 included in the proposed settlement.

7 MR. TIDWELL: I think this witness has just
8 characterized those rates as reasonable and consistent with
9 the policy goals enunciated in her testimony. I don't know
10 what your definition of "endorsement" is, but it sounds
11 pretty close.

12 BY MS. CATLER:

13 Q Well, maybe I should go through these five goals,
14 then, specifically. I think we've already gone through one.
15 What about two, recognizing the value of mailer work
16 sharing? What caused this value to increase in December of
17 2001 over what was proposed in September of 2001?

18 A The goal in recognizing the value of mailer work
19 sharing in designing the rates proposed in my testimony was
20 to recognize the fact that the presorted automation mail
21 stream is a very low-cost mail stream for the Postal Service
22 and provides an extremely high contribution to institutional
23 costs. In designing the rates, I chose to increase the
24 automation discounts by half a cent above the current
25 levels, resulting in passthroughs of 115 to 120 percent

1 approximately, as indicated in my testimony. That decision
2 was based on an analysis of all the factors, including the
3 impact on the mailers of changes in rates, the value of
4 mailer work sharing to the Postal Service, and the other
5 factors discussed in my testimony. I do not believe that
6 further increase in the discounts that is proposed in the
7 stipulation and agreement is unreasonable, and I think it
8 recognizes the value and the high contribution to
9 institutional costs that those mail pieces provide.

10 Q Goal number three: Avoiding changes in discount
11 levels which result in disruptive rate impacts. How is that
12 goal furthered by further increasing the discounts, as
13 proposed in the settlement agreement?

14 A The goal of avoiding changes that result in
15 disruptive rate impacts was based on an assessment of the
16 relative rate changes for various subgroupings of first-
17 class mail. In first-class mail the single-piece mail
18 stream received a slightly lower rate increase than the
19 work-share mail increase. So the settlement rates with the
20 discounts being slightly larger move the work-share mailers'
21 increase closer to the level of the increase that had been
22 proposed for the single-piece mail stream.

23 Q And you think that's appropriate despite that over
24 time the costs avoided by presorting and pre-bar coding are
25 declining.

1 A Yes, I do because not only are the costs avoided
2 as estimated by Witness Moeller declining; the implicit cost
3 coverage for this mail stream is increasing. If you look at
4 the history of the implicit cost coverages for work-share
5 mail, and this is on the Postal Rate Commission's
6 methodology, which is not supported by the Postal Service;
7 however, is the only consistent data series we have. It's
8 footnote seven on page 12. We're looking at an increase in
9 the implicit cost coverages for work-share mail over the
10 past five to seven years. When you weigh that along with
11 the changes in the cost avoidances, it seems appropriate to
12 increase the discounts under the circumstance.

13 Q What portion of the work-shared, first-class mail
14 pieces do you believe would revert to the Postal Service for
15 sorting and bar coding if the Postal Service strictly held
16 to cost avoidance in setting presort and pre-bar coding
17 discounts?

18 A So if the discounts were set precisely at the
19 level of cost avoidance as estimated by Witness Moeller,
20 what the volume impact would be; is that the question?

21 Q Basically, the ones that are in your footnote
22 eight, yes.

23 A My footnote eight. We have not done that
24 analysis. However, generally a reduction in the discounts
25 and increase in the rates for those letters would typically

1 result in a reduction in volume.

2 Q A reduction in volume or a reversion to the Postal
3 Service for sorting and bar coding?

4 A A reduction in the work-share volume, which could
5 include some reversion to single piece as well as perhaps
6 mail pieces going to other forms of delivery.

7 Q What operational difficulties would the Postal
8 Service experience if mail reverted to single piece?

9 A I'm not the operations witness. However, the
10 volume of work-share mail is very high. We're looking at in
11 the test year after rates the volume of work-share letters
12 exceeding the volume of single-piece letters. Depending on
13 the scale of that return to single-piece mail and how it was
14 changed, where it came in, and where it was entered, it's my
15 understanding that could be problematic for the Postal
16 Service operationally.

17 Q Have any studies been done of the possibility of
18 reversion and the consequences of such a reversion, to your
19 knowledge?

20 A I'm not the operations witness. I'm not aware of
21 what operational studies have or have not been done.

22 Q Do you have an opinion of what the discounts would
23 have to be reduced to to result in a large portion of the
24 work-shared, first-class mail pieces reverting to the Postal
25 Service for sorting and bar coding?

1 A A specific discount level?

2 Q Yes.

3 A No. I don't have an estimate of what that
4 discount would be. However, a significant change in the
5 work-share incentives, particularly following MC-95, has
6 shown that mailers respond to those incentives. So I
7 believe there would be some volume impact. However, I
8 cannot quantify that volume impact. That's probably more
9 the testimony of Witnesses Tolley and Thress.

10 Q On page 34 in your new section, V, you discuss
11 cost revisions made by Witness Moeller after your testimony
12 was prepared.

13 A To clarify, I believe you mean page 30.

14 Q Yes. That's right. It came out at 34 when it was
15 reprinted, but it, I guess, gets added to page 30. Right.
16 Yes. Excuse me. So on page 30 in your new section, V, you
17 discuss cost revisions made by Witness Moeller after your
18 testimony was prepared, and you revised the chart you
19 originally produced as Table 3, page 20, to show the effect
20 of these cost revisions. However, at lines 15 through 16
21 you state that no rates are being revised for your chart.
22 But the proposed settlement does change the rates in this
23 chart. How does this chart change if the proposed
24 settlement rates are used?

25 A This chart is presenting the passthroughs based on

1 the proposed rates in my testimony and Witness Moeller's
2 cost estimates revised on November 16th. I have not
3 calculated what the passthroughs would be with the
4 settlement rates. However, they are likely somewhat higher
5 for the three-digit and the five-digit rates, in that the
6 settlement discounts are somewhat higher. I don't have the
7 exact number.

8 Q So despite the fact that you revised your
9 testimony yesterday, and the Postal Service is now proposing
10 higher discounts in these rates, you didn't include those
11 higher discounts in this chart.

12 A It's my understanding that the Postal Service's
13 proposal is what was filed in September of last year. The
14 stipulation and agreement is a result of negotiations
15 between the Postal Service and parties within this
16 proceeding in order to develop settlement rates.

17 Q I don't need to go and argue with you about what
18 the rate commission will have to do to go and adopt rates,
19 but I believe that they do need to be supported.

20 Finally, at the outset of your testimony on page
21 two, lines 3 through 5, you indicate that the proposed rates
22 for first-class mail meet the cost coverages of 212 percent
23 for the letters and sealed parcels subclass and 158.7
24 percent for the cards subclass, as proposed by Witness
25 Moeller. If the increased discounts included in the

1 proposed settlement are included, what are the cost
2 coverages for the letters in sealed subclass? Do the rates
3 included in the proposed settlement meet the cost coverages
4 proposed by Witness Moeller?

5 A The rates proposed in the settlement increase the
6 discounts for the three-digit and five-digit automation
7 letters, among a couple of other minor changes. There is a
8 change in the QBRM rate as well. To the best of my
9 knowledge, we do not have the full set of information on
10 costs and forecasted volumes to calculate what the cost
11 coverages would be. However, I do not believe those changes
12 in the discounts would significantly change these cost
13 coverages.

14 MS. CATLER: Thank you. I have no further
15 questions.

16 CHAIRMAN OMAS: Is there any followup cross-
17 examination? Mr. Hart?

18 MR. HART: Thank you, Mr. Chairman.

19 CHAIRMAN OMAS: Would you identify yourself,
20 please?

21 MR. HART: Henry Hart, representing the National
22 Association of Presort Mailers.

23 CROSS-EXAMINATION

24 BY MR. HART:

25 Q A very few brief questions, if I may, Ms.

1 Robinson. One, the counsel for the union was asking you
2 about the passthroughs of rates relative to cost avoidance,
3 and, of course, is it correct that the percentage figures
4 that you were giving in your testimony that you discussed on
5 passthroughs had to do with the cost avoidance as measured
6 by Postal Service Witness Moeller?

7 A Yes. The cost avoidances calculated in my
8 testimony are based on Witness Moeller's estimate.

9 Q Are you aware of the fact that in past rate cases
10 the Commission has not adopted on a wholesale basis the
11 cost-avoidance measurements of the Postal Service?

12 A I'm not an expert on the costing systems, but
13 based on my readings of the Postal Rate Commission's recent
14 decisions, it appears there are differences between the
15 Postal Service methodology and the Postal Rate Commission's
16 methodology.

17 Q I'd like to show you a very simple exhibit if I
18 may. I have a few extras at the table if anyone wants to
19 see them. Ms. Robinson, I'm showing you what has been
20 marked ABA and NAPM Cross-Examination Exhibit Number 1 for
21 Robinson, USPS T-29.

22 (The document referred to was
23 marked for identification as
24 Exhibit No. USPS-T-29.)

25

1 BY MR. HART:

2 Q And I'm not going to ask you to testify as to the
3 accuracy of the calculations that underlie those figures.
4 I'll ask you to assume the accuracy. I have a very brief
5 question for you on them. Just to explain the chart, the
6 first two columns of the chart show cost-avoidance figures
7 which were given in response to ABA and NAPM Interrogatories
8 T-22 to Mr. Moeller, numbers three and four. Number three,
9 which is the first row, was answered by Mr. Moeller. Number
10 four was redirected to the Postal Service. Both of those
11 responses have been designated for the record. We have
12 filed the institutional response to number four. I guess
13 that hasn't been formally designated yet, but we've filed a
14 motion to designate it.

15 The first column shows the cost avoidance that was
16 responded to by Mr. Moeller when we asked him to take the
17 cost avoidances in the library reference which he sponsored,
18 LRJ-60, for the cost avoidances and to add to those cost
19 avoidances 1.859 cents, which would reflect the use of a
20 delivery cost proxy for both metered mail which was used by
21 the Commission in the last case, R-2001, and you will see in
22 that column, without asking you to vouch for the accuracy,
23 but that's the response that was given for the cost
24 avoidance.

25 The second or middle column is the response that

1 was given, the institutional response of the Postal Service
2 to our Interrogatory Number 4 to Mr. Moeller, redirected to
3 the Postal Service, and there we ask to take Library
4 Reference LRJ-84, which is the PRC version of cost-avoidance
5 methodology, and to add to it that same 1.859 cents to
6 adjust to use the same delivery cost proxy as was used in
7 the last case, and those are the cost-avoidance figures you
8 get there.

9 The third and last column on the right are the
10 proposed settlement discounts for first-class letter mail,
11 automated, mixed basic AADC three digit and five digit.
12 Again, assuming the accuracy of those calculations, do you
13 agree that the proposed settlement discounts in the right-
14 hand column exceed the cost-avoidance figures in columns one
15 and two for the corresponding cost-avoidance figures?

16 A Assuming that column one and column two accurately
17 represent the response to ABA and NAPM USPS T-22-3 and T-22-
18 4, in each instance the cost avoidance indicated in column
19 one and column two is greater than the proposed settlement
20 discounts.

21 MR. HART: Thank you very much. That's all I
22 have. Not quite. Could I put into the record that cross-
23 examination exhibit?

24 CHAIRMAN OMAS: Without objection.

25 (No response.)

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-29, was
4 received in evidence.)

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FCLM Automated Rate Cost Avoidance/Discounts

	ABA&NAPM/USPS-T22-3 Cost Avoidance	ABA&NAPM/USPS-T22-4 Cost Avoidance	Proposed Settlement Discounts
Auto Mixed Basic	6.950 cents	7.835 cents	6.1 cents
Auto AADC	7.825 cents	8.918 cents	6.9 cents
Auto 3D	8.142 cents	9.280 cents	7.8 cents
Auto 5D	9.278 cents	10.552 cents	9.2 cents

ABA&NAPM Cross-Examination

Exhibit #1 for Robinson (USPS-T29)

1 CHAIRMAN OMAS: Are there any questions from the
2 bench?

3 (No response.)

4 CHAIRMAN OMAS: Are there any additional cross-
5 examination of Witness Robinson?

6 (No response.)

7 CHAIRMAN OMAS: Mr. Tidwell, would you like some
8 time with the witness to review whether there is a need for
9 redirect?

10 MR. TIDWELL: Mr. Chairman, that won't be
11 necessary. There will be no redirect. Witness Robinson can
12 hurry up and get off the stand and tell us about her horrid
13 commute this morning.

14 CHAIRMAN OMAS: I had one as well. Ms. Robinson,
15 that completes your testimony here today. We do appreciate
16 your appearance and your contribution to our record. We
17 thank you, and you are now excused.

18 THE WITNESS: Thank you.

19 CHAIRMAN OMAS: This concludes today's hearings.
20 We will reconvene on January 10th at nine-thirty when we
21 will receive testimony from Postal Service Witnesses
22 Loetscher, Hope, and Mayo. Thank you very much.

23 (Whereupon, at 11:08 a.m., the hearing was
24 adjourned, to be reconvened at 9:30 a.m. on January 10,
25 2002.)

REPORTER'S CERTIFICATE

1
2
3 DOCKET NO.: R2001-1
4 CASE TITLE: Postal Rate and Fee Changes
5 HEARING DATE: January 9, 2002
6 LOCATION: Washington, D.C.
7

8 I hereby certify that the proceedings and evidence are
9 contained fully and accurately on the tapes and notes
10 reported by me at the hearing in the above case before the
11 Postal Rate Commission.
12
13

14 Date: January 9, 2002

15 
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